Annual Report 2010

BONG

Contents

Bong

Bong is the leading European provider of specialised packaging and envelope products. Its market stretches from the Atlantic in the west to the Urals in the east. Bong develops smart packaging for e-commerce and the retail sector. Financial information and addressed direct mail are two major applications for envelopes. The largest envelope customers are the office goods trade and paper wholesalers. For ProPac, major customers include fashion and mail order companies as well as packaging wholesalers. The Group's growth areas are the ProPac packaging range, Embossing on envelopes and Russia/Eastern Europe, which together accounted for about one third of sales in 2010. Bong is a public limited company and its shares are listed on NASDAQ OMX Stockholm, Small Cap.

2010

HIGHLIGHTS OF THE YEAR

- In the autumn Bong merged with Hamelin's envelope division. After the merger the new Bong has **SEK 3.5 billion in sales** and **2,400 employees** in **fifteen countries**
- Revenue amounted to SEK 2,326 million (1,915). Hamelin is part of the Group as of October 2010
- The ProPac packaging initiative continued to grow rapidly and accounted for SEK 390 million (247) of consolidated sales in 2010
- Bong's acquisitions included Tycon in Luxembourg, which produces envelopes and packaging in Tyvek®, 50 per cent of capital in Image in the UK, specialised in Embossing, and the remaining 12 per cent in Voet, the Netherlands, which is prominent within ProPac
- Operating loss was SEK –91 million (65) and earnings after taxes amounted to SEK –97 million (24). Non-recurring costs of SEK 157 million were charged against earnings
- Cash flow after investing activities totalled SEK 25 million before the purchase sum and transaction costs in connection with the Hamelin merger (169)
- After merger, Holdham becomes the biggest shareholder in Bong with 24.9 per cent of votes and capital
- The Board of Directors proposes that a dividend of SEK 1 (1) per share be paid, for 2010.

Directors' report

The Board of Directors and the President of Bong AB (publ.), corporate ID no. 556034-1579, domiciled in Kristianstad, hereby submit their annual report for the financial year 1 January 2010 – 31 December 2010 for the Parent Company and the Group.

Bong is the leading provider of specialised packaging and envelope products in Europe and offers solutions for distribution and packaging of information, advertising materials and lightweight goods. Important growth areas in the Group are the ProPac packaging concept and Russia. After the merger with Hamelin's envelope division the Group has sales of about SEK 3.5 billion and some 2,500 employees in 15 countries. Bong has strong market positions, especially in the Nordic region, Germany, France and the UK, and the Group sees interesting possibilities for continued expansion and development. Bong is a public limited company and its shares are listed on NASDAQ OMX Stockholm, Small Cap.

Markets
The European Envelope Manufacturers Association (FEPE) volume statistics indicated a fall in volume in 2010 of about 5 per cent compared with 2009. Russia and Eastern Europe, however, went against the flow; these markets grew 5-10% compared with 2009.

Consolidation in the envelope industry continued through Bong's merger with Hamelin's envelope division, which created the largest provider of specialised packaging and envelope products in Europe.

The packaging market, in which Bong is active with its ProPac range, is significantly larger and more multifaceted than the envelope market. Market statistics for the niches where Bong is active are unavailable or difficult to obtain. Bong's assessment is that demand for packages such as those used in e-commerce, mail order and retail trade have been positively affected by the recent market upswing and these are expected to have strong growth potential over time.

Sales and earnings
Consolidated sales rose 21 per cent in 2010 and totalled SEK 2,326 million (1,915). The strengthening of the Swedish Krona against the euro and British Pound had a negative impact on consolidated sales. Excluding foreign exchange effects, consolidated sales were up by 31 per cent compared with 2009. On a like-for-like basis, sales excluding foreign exchange effects grew by approximately 5 per cent, while ProPac sales measured in the same manner grew by 31 per cent.

Operating loss was SEK –91 million (profit: 65) including costs related to the merger with Hamelin's envelope division as well as other non-recurring items for a total of SEK –157 million. Of these costs of SEK –157 million, SEK –19 million are direct transaction costs in connection with the Hamelin merger, SEK –123 million in write-downs and restructuring costs to streamline the organisation and achieve significant synergies of SEK 90–100 million after two years as well as SEK –15 million in other non-recurring items. The other non-recurring items of SEK –15 million consist of SEK –8 million for the restructuring program in the Nordic region and Belgium, SEK –6 million relating to early settlement of a lease on a former production building in Germany and SEK –1 million relating to extra costs in connection with the Finnish port workers' strike in March 2010 when paper had to be redistributed among the Group units. Compared with 2009, the appreciation of the Swedish Krona, especially against the euro, had a negative impact on operating profit of SEK 4 million on a like-for-like basis.

Bong's exclusive Tyvek® agreement had a positive impact on earnings, as did strong sales of gift bags to the retail sector.

Prices for uncoated fine paper, Bong's largest input material, rose in several increments during the period. Bong has worked intensively to pass on the price increases, although this occurs with a certain lag. Consequently, margins and profit were negatively affected during the period.

Net financial items totalled SEK –41 million (–35), loss before tax was SEK –132 million (31) and loss after tax amounted to SEK –97 million (24).

Cash flow
Cash flow after investments totalled SEK 25 million (169), before the cash purchase and transaction costs associated with the Hamelin merger of SEK 302 million and other acquisitions in 2010.

Despite rising paper prices and build-up of inventories for Tyvek, the Group managed to reduce working capital with SEK 28 million (98) on an annual basis.

Financial position
Cash and cash equivalents at 31 December 2010 totalled SEK 149 million (74), while undrawn credit facilities amounted to SEK 319 million at 31 December 2010. Total available cash and cash equivalents amounted to SEK 469 million.

Consolidated equity at 31 December 2010 was SEK 531 million (598). The non-cash issue in connection with the Hamelin merger of SEK 130 million, less transaction costs of SEK 2 million increased shareholders' equity, while translation of the net asset value of foreign subsidiaries to Swedish kronor and changes in the fair value of derivative instruments reduced consolidated equity by SEK 98 million. The interest-bearing net loan debt increased during the period by SEK 473 million to SEK 1,062 million (589). Net loan debt includes a provision for final payment of the purchase sum relating to the acquisition of Hamelin's envelope business of SEK 26 million. Translation of net loans in foreign currency to Swedish kronor reduced the Group's net loan debt by SEK 46 million. At 31 December 2010, the debt/equity ratio was 2.0 (0.9) and the equity/assets ratio was 21 per cent (36).

Capital expenditure
Net investments in 2010 amount to SEK –330 million (–15), including the acquisition of Hamelin's envelope division along with the acquisitions of Tycon in Luxembourg, Image Envelopes in the UK, remaining shares in the subsidiary Voet (12 per cent), Taberg in Stockholm and 90 per cent of shares in Bong CSK in Poland, which then became a wholly owned company. The sales of a building in Germany made a positive contribution to cash flow of SEK 18 million. The effects of the merger with Hamelin's envelope division are reported in a separate section.

Merger with Hamelin's envelope division
Bong's merger with Hamelin's envelope business creates a strong company, well equipped for the new market. To a large extent, the two companies' sales organisations, market presence and production resources complement each other well. The new company has a unique strength through its presence in the major markets of Britain, France, and Germany as well as in the Nordic region.

To sum up:

- Bong will be the leading company in specialty packaging and envelopes in Europe
- Stronger platform for accelerated product development and growth
- Larger geographic coverage and broader line of products
- Significant synergies that enhance efficiency and competitiveness

The transaction was completed through Bong's acquisition of Hamelin's entire envelope business. Payment for the acquired operations was made partly through the non-cash issue of 4,352,768 new shares and convertible bonds with a combined nominal value of EUR 4 million to Groupe Hamelin's holding company Holdham S.A., as resolved by the extraordinary general meeting of Bong on 22 October 2010. Bong took over or refinanced the debt that existed in Hamelin envelopes business and paid a cash purchase price, for a total amount of about EUR 45 million. As part of the purchase price Holdham extended a shareholder loan to Bong of EUR 7.5 million. Bong acquired all companies that comprised

Hamelin's envelope division through the acquisition of the holding company CADIX SAS. The acquisition also included two items for assets and liabilities for the UK and France, respectively. The companies were consolidated as of 1 October 2010. A final payment of SEK 26 million was made in January 2011.

According to the preliminary acquisition price allocation, the acquired assets were allocated as follows: intangible assets of SEK 7 million, property plant and equipment SEK 294 million and goodwill SEK 143 million. The acquired business contributed net sales of SEK 387 million during the fourth quarter of 2010. However, this contribution to earnings cannot be separated due to restructuring measures. Transaction costs were SEK 19 million.

Costs associated with the Hamelin merger

In addition to transaction costs, the Hamelin merger gave rise to costs of SEK –123 million relating to write-downs and restructuring costs. Two restructuring programmes were initiated in the fourth quarter of 2010, one on the European continent to move part of production volumes to France and the UK, respectively, and the integration of Hamelin's operations with Bong's. The project will continue in 2011.

The other project that was initiated in the UK involves integration between two of Hamelin's operations and Bong. This project, which was regulated in the agreement between Bong and Hamelin, involves a significant shift of operations from a Hamelin division outside the envelope business to Bong, as well as the spin-off of British John Dickinson Ltd. from Hamelin's administrative organisation.

The merger with Hamelin's envelope division provides Bong with a broader production base, which in turn allows optimisation of where production for various countries takes place. Bong endeavours to locate production as close to the end customer as possible to achieve maximum efficiency in the logistics chain.

Extraordinary general meeting

The company held an extraordinary general meeting on 22 October 2010. The extraordinary general meeting resolved in accordance with the Board's proposal to increase the company's share capital by SEK 43,527,680 through the issue of 4,352,768 new shares, and to issue convertible bonds with a combined nominal value of EUR 4 million. Holdham S.A. subscribed for all new shares and all convertible bonds. Payment for the new shares and convertible bonds was made in kind through shares in Cadix S.A.S. The value of the capital contributed in kind was SEK 130 million. Through the share issue own Holdham owns 24.9 per cent of all shares in Bong and the convertible bonds correspond with an additional 5 per cent at full conversion.

Bong's Board of Directors

The extraordinary general meeting also resolved to increase the number of Board members to seven and elected Stéphane Hamelin and Eric Joan as new Board members with effect from 12 November 2010 until the end of the next AGM. Patrick Holm resigned from the Board.

EU commission investigation

In September 2010 the EU commission carried out inspections of several companies in the envelope and paper industry in Europe, including Bong in Sweden. The commission's investigation is currently underway. Against this background, Bong is not able to reasonably assess the outcome of the commission's judicial review.

Significant events after the end of the financial year

Final payment to Hamelin.

The final payment of SEK 26 million of the purchase sum relating to the acquisition of Hamelin's envelope business was made in January 2011.

Acquisition of Egå Offset

On 3 January 2011 Bong acquired the Danish envelope and printing company Egå Offset's business in Århus. Through the acquisition Bong acquires an envelope printing facility and becomes a major supplier of printed envelopes in all of Denmark through its Danish subsidiary Bong Bjørnbak A/S.

Egå Offset, a family business specialising in printing and sales of envelopes, is an important regional player in the Jutland region. The unit has annual sales of around SEK 30 million and 17 employees. The acquisition is expected to make a positive contribution to Bong's earnings starting in the first quarter of 2011.

Employees

The average number of employees during the period was 1,540 (1,220). On 31 December 2010 Bong had 2,497 (1,210) employees. These figures include the companies acquired in 2010.

Environment

Bong's environmental work is aimed at minimising the environmental effects of both end products and processes.

At present, Bong is working actively to improve production methods so that polluting emissions are minimised, to eco-label as large a portion of the range as possible, and to boost knowledge and awareness of environmental issues among its employees. Besides imposing demands on its own operations, Bong is also trying to influence suppliers and customers to design their products so that ecocycle thinking and conservation of natural resources are prioritised.

In order to further rationalise environmental efforts, the company is working according to a plan for environmental certification with the objective that all plants in the Group will be certified to ISO 14 001. The facilities in Wuppertal, Germany, Nybro and Kristianstad in Sweden, Tönsberg in Norway, Milton Keynes and Washington in the UK, Luxembourg, and Evreux and Angoulême in France are certified. The plants in Kavi, Finland, and Derby, UK, are working on certification.

In 2008, the industry took the initiative in the establishment of a new pan-European environmental certification standard: Paper by Nature. In 2009, Bong began efforts to obtain certification of its products according to this eco-label. The eco-label is applied to paper products such as envelopes, books and note pads. It takes into account the potential environmental impact of raw materials and manufacturing processes. Paper by Nature guarantees that the raw materials come from sustainably managed forests and that the products have been manufactured in certified facilities. Paper by Nature covers the environmental impact of manufacturing as well as energy aspects, emissions to water and air and environmentally harmful substances. The plants in Wuppertal, Astrach in Germany, Kristianstad in Sweden and Washington and Derby in the UK, Evreux, Angoulême and Limoges in France and Venlop in the Netherlands are certified by the Paper by Nature Association.

Environmental certification of the products is an important aspect, and labelling with the Nordic Ecolabel (the Swan) is therefore a natural part of Bong's Scandinavian range.

During 2009, the Group conducted operations that required an environmental permit under the Environmental Code in Nybro through the subsidiary Bong Sverige AB. Net sales in the operation requiring an environmental permit in Nybro amounted to SEK 155 million.

Research and development

The Group does not conduct any research and development activities. However, active efforts are purs1ued to meet the customers' needs for different envelopes and packaging solutions.

Parent Company

The activities of the Parent Company include administration of operating subsidiaries and Group management functions. Net sales were SEK 27 million (0) and the period's profit before tax was SEK 24 million (21). Investments for 2010 amounted to SEK 17 million (2), excluding investments in equities in subsidiaries. The investments are IT related and pertain to a common platform for administrative systems in the Group. Credits granted but not utilised amounted to SEK 319 million (308 at 31 December 2009).

Board's proposed 2011 guidelines for remuneration to senior executives

The 2010 AGM approved remuneration guidelines and other terms of employment for the chief executive and other senior executives. The extraordinary general meeting on 22 October revised these guidelines. The Board of Directors of Bong AB (publ) proposes that the 2011 AGM resolve on remuneration to the President and other senior executives as follows: "Senior executives" refers to executives included in the management group, which currently consists of the company's President/CEO, Chief Financial Officer (CFO), Business Manager Nordic and Managing Director ProPac International AB, Business Manager Central Europe, Business Manager United Kingdom and Business Manager France and Spain.

Remuneration shall consist of fixed salary, variable remuneration, other benefits and pension. Total compensation must be at market rates and competitive to ensure that the Bong Group can attract and retain competent senior management.

The variable portion of the salary shall have a predetermined ceiling, according to the basic principle that the variable salary portion can amount to no more than 60 per cent of the fixed annual salary. The variable portion is based on achievement of two or three of the following interim goals: 1) the Group's EBT[1)], 2) the Group's cash flow, 3) earnings in the business unit, and 4) individual/qualitative goals. The basic principle is that the variable remuneration is paid in accordance with the agreed-upon weighting between the interim goals if the interim goal has been achieved. The variable portion is based on an earning period of one year. The goals for the senior executives are established by the Board of Directors.

Pension benefits shall primarily be defined-contribution, but also occur for legal reasons as defined-benefit, although not at the Group Management level. Variable remuneration is not pensionable. The Group Management is entitled to pensions under the ITP plan or the equivalent. The retirement age is 65 years. In addition to the ITP plan, some members of the Group Management are also entitled to an increased occupational pension premium of up to 30 per cent of their fixed salary.

The Group Management's employment contracts include provisions governing remuneration and termination of employment. According to these agreements, employment can ordinarily terminate at the request of the employee with a period of notice of 3–24 months and at the company's request with a period of notice of 6–24 months. In the event of termination by the company, the period of notice and the period during which severance pay is payable shall not together exceed 24 months.

Remuneration to the President and other senior executives is prepared by the Board of Directors' Compensation Committee and finalised by the Board based on the recommendation of the Compensation Committee.

These guidelines apply to those persons who are included in the Group Management during the period the guidelines are in force. The guidelines apply to the employment contracts entered into after the AGM's resolution, and to any changes in existing contracts. The Board of Directors is entitled to disregard the above guidelines if it finds that special reasons exist to justify this in a particular case.

[1] Earnings Before Tax

Supplementary information

The cost of Group Management's variable remuneration – at maximum outcome, which assumes that all bonus-related goals are achieved – can be calculated to be about SEK 8.5 million (excluding social security contributions). The calculation is based on the current composition of the Group Management.

Resolution at extraordinary general meeting to implement long-term variable remuneration

The Extraordinary General Meeting of 22 October 2010 resolved to implement long-term variable remuneration ("LVR").

Background and rationale

In light of the acquisition of Hamelin's envelope division, it is essential to strengthen the new senior management's mutual long-term commitment to implementation of the extensive integration of the two companies.

LVR is designed to encourage and drive long-term value growth in the Bong Group. It presumes that participants will continue to be employees in the Group in order to benefit and the participants agree not to sell any shares in Bong during the duration of the compensation programme. The Board believes that LVR will strengthen the participants' long-term commitment and create common goals for existing shareholders and senior executives. LVR is explained in greater detail below.

In order to be able to implement LVR appropriately and cost-effectively, the AGM resolved to authorize the Board to acquire treasury shares on the stock exchange and also resolved that the acquired treasury shares should be transferred to the participants in LVR according to the terms and conditions specified below.

A. Long-term variable remuneration

The Extraordinary General Meeting resolved to implement long-term variable remuneration ("LVR"), as stated in the following guidelines.

1. The opportunity to participate in LVR is being offered to six senior executives in the Group.
2. The duration of the LVR is approximately three years.
3. The senior executives participating in the LVR are entitled to receive a onetime payment provided that predetermined and measurable performance criteria are met.
4. One requirement for LVR to be paid is that the implicit value per share ("IVPS") through 2013 increases to at least SEK 71, corresponding with an increase of at least 187 per cent compared with the value on the date that the Hamelin merger was announced. Each participant will then have the right to receive LVR equivalent to 1.5 times their annual salary[1]. For maximum LVR, involving an allocation of 3 times the annual salary of each participant, IVPS must increase to at least SEK 90, equivalent to an increase of at least 265 per cent. LVR will be calculated proportionately for outcome between those guidelines. IVPS is determined as EBITDA[2] 2013 multiplied by a multiple of 6 and minus the average net debt during the second half of 2013. Any capital increases during the program are added to the actual net debt. The EBITDA 2013 calculation will be reduced by any negative deviation from planned EBITDA 2012. Maximum LVR amounts to SEK 45 million. The amount to be paid will be charged against EBITDA in the calculation.
5. Provided that applicable performance criteria are met, the outcome of LVR will be determined as soon as possible after publication of Bongs Year-End Report for 2013 and, subject to the terms set out in points A6 and B (ii) 5 below, will be paid no later than 30 April 2014 as follows:
   (i) 50 per cent of LVR will be payable in cash, and
   (ii) 50 per cent of LVR will be payable in shares in Bong ("LVR shares"). The number of shares to which each participant will be entitled shall be determined by the ratio between the achieved LVR and the average volume-weighted share price in March 2014.
6. The right to receive LVR is subject to the following conditions:
   (i) the participant must not sell any shares in Bong before the end of 2013,
   (ii) the participant must not give notice of termination of employment in the Bong Group before the end of 2013, and
   (iii) the participant must not have been given notice of termination of employment before the end of 2012. In the event that the participant is dismissed in 2013 the participant shall remain entitled to LVR.
7. Participants shall not be entitled to sell LVR shares before the end of 2014.
8. The Board of Directors shall be entitled to resolve upon a reduction of LVR if the Board considers that a distribution in accordance with the above terms – taking into consideration the financial results and position of the Company, as well as the Group's development in general and conditions in the stock market – would be manifestly unreasonable.
9. Participation in LVR presupposes that such participation is legally possible and that such participation in Bong's assessment is possible with reasonable administrative cost and financial efforts.
10. The Board shall be responsible for the particulars and the handling of LVR within the frame of the above principal guidelines and shall also be entitled to make such minor adjustments which may prove necessary due to legal or administrative circumstances.

[1] Annual salary refers to each participant's gross fixed salary for 2011.
[2] Earnings Before Interest Taxes Depreciation and Amortization.

B. Hedging measures

(i) The Board of Directors is authorised to take decisions on acquisition of treasury shares on the stock exchange to enable provision of LVR shares as stated in LVR on the following terms and conditions.

1. The authorisation may be used on one or more occasions, however before the date of the 2011 annual general meeting.
2. The number of shares needed for delivery of LVR shares to participants in LVR, though not more than 400,000 shares, may be acquired to secure delivery thereof. In the event that the acquired shares should remain after LVR share payment is complete, they shall remain in Bong's ownership and be used for future incentive programmes or as otherwise decided by the General Meeting.
3. Purchase in accordance with point 2 will take place on NASDAQ OMX Stockholm to a price which is within the registered spread at any time, i.e. an interval between the highest buying rate and the lowest selling rate.

(ii) Transfer of acquired treasury shares to participants in LVR.

In order to enable delivery of LVR shares according to LVR, the extraordinary general meeting resolved to transfer treasury shares subject to the following terms and conditions.

1. The number of shares needed for delivery of LVR shares to participants in LVR, though not more than 400,000 shares (corresponding to the repurchased shares under B (i) 2 above), may be transferred no later than 30 April 2014.
2. The right to acquire shares shall accrue to participants in LVR, with a right of each of the participants to acquire the maximum number of shares according to the terms of the scheme.
3. Transfer of shares to participants in LVR will be effected as soon as possible after publication of the year-end report for 2013, though no later than 30 April 2014.
4. The transfer of shares shall take place free of charge.
5. In the event the maximum amount of treasury shares set forth in this point 1 above is insufficient to cover the amount of shares required for delivery of LVR Shares to participants in LVR, Bong shall be entitled to (a) pay an amount corresponding to such failing number of shares in cash, or (b) take such further hedging measures as are necessary to enable the delivery of all LVR shares.

The reason for deviating from the shareholders' preferential right on the transfer of shares is to give Bong the possibility to transfer LVR Shares to the senior executives participating in LVR.

Costs of LVR
Costs related to LVR are primarily fixed gross salaries. These cost are estimated at approximately SEK 45 million plus social security expenses.

Percentage of total number of shares
The number of shares in Bong will amount to 17,480,995. LVR will entail acquisition of a total of a maximum of 400,000 shares as set forth in definition in B (i) 2 above, corresponding to 2.3 percent of the total number of outstanding shares in Bong. Upon full conversion of the outstanding convertible loan this percentage decreases to 2.1 per cent.

LVR will not entail any dilutive effects as the Board proposed hedging the programme through delivery of already issued shares to participants.

Ownership
Bong's principal owners, with stakes of more than ten per cent of the votes and capital, are Holdham S.A. with 25 per cent of the votes and capital, Melker Schörling (corporate ownership) and Alf Tönnesson (corporate ownership), both with about 22 per cent of the votes and capital. Skandia Liv and Fata Morgana AB each own about 4 per cent of the votes and capital in the company. The total number of ordinary shares was 17,480,995 at 31 December 2010. All shares carry the same rights.

There are no restrictions on the transferability of the shares due to legal regulations or rules in the Articles of Association.

Bong is not aware of any agreements between direct shareholders in Bong that entail restrictions in the right to transfer shares.

In the event of a public offer, no agreements are triggered that would have a material effect on Bongs earnings or position.

Appointment and removal of Board members and amendment of the Articles of Association
The company's Board of Directors shall consist of at least four and at most nine members. The members are elected at a General Meeting of Shareholders for the period until the end of the first Annual General Meeting (AGM) held after appointment of the member.

The Articles of Association can be amended at the AGM or a General Meeting of Shareholders.

Risks and opportunities
Like all business operations, Bong's operations are associated with risks and opportunities. The specific factors judged to have the greatest impact on Bong's operations are presented below.

Operating risks and opportunities
Market development
Historically, the envelope market has followed the general economic trend. In Eastern Europe, a generally growing economy still drives envelope consumption. In Western Europe, the connection between general economic growth and envelope consumption is not as strong as before. Dependence on the trend in the advertising market has increased in recent years due to the fact that direct mail (DM) envelopes account for an increasing share of Bong's volumes. With the aid of more sophisticated databases with personal information, a market is being created for highly converted envelopes intended for addressed direct mail.

At the same time, administrative mail as a whole is tending to decline as a result of the fact that the Internet and e-mail are replacing a certain type of mail, such as order confirmations, bank statements, etc. Other types of administrative mail, known as transaction mail, stand up well in competition with the new communication channels.

The strong demand for packages in retail trade – both in distance selling and traditional selling – is creating great opportunities for Bong to meet the need for package-like envelopes and packages. Growth in envelopes for market communications and e-commerce is over time expected to compensate for the decrease in administrative mail. Bong is following this trend closely and taking the appropriate steps.

Postage and charges
Changes in postage and charges can lead to changes in letter and mail volumes. Postage increases have a negative impact on volumes, while postage decreases have a positive impact. Postage is usually based on weight or size. More large markets are using weight-based postage. A transition from weight- to size-based postage could lead to changes in Bong's product mix and cause a shift towards small envelope sizes.

Industry structure and price competition
The European envelope industry is in a phase of increasing consolidation and restructuring. The rate of consolidation declined in 2007 and 2008, only to speed up again in 2009 and 2010 as a result of the financial crisis. The biggest envelope companies in Europe represent around 75 per cent of the total market. But several of the big markets are still rather fragmented. It is Bong's impression that the previous overcapacity in the industry has decreased somewhat.

Paper prices
Uncoated fine paper is the single most important input material for Bong. The cost of fine paper is about 50 per cent of the total cost. Under normal conditions, Bong can compensate for price increases, sometimes with some time lag.

Dependence on individual suppliers and/or customers
Uncoated fine paper is Bong's most important input material and is mainly purchased from three large suppliers. Delivery disruptions from any of the three suppliers could affect Bong negatively in the short term. In a longer time perspective, Bong does not have any suppliers that are critical to its operations.

The Group's dependence on individual customers is limited. The biggest customer accounts for 8 per cent of annual sales, and the 25 biggest customers account for 39 per cent of total sales.

Capital needs and investments
All companies in the European envelope industry have roughly the same production equipment. The age of the machinery is of limited importance for production efficiency, but newer machines generally have higher capacity. Machine wear is low, and production control and automation are crucial for cost-effective production. In general, the long life of the machines inhibits scrapping and consolidation of the industry.

On the other hand, the low investment need leads to very good cash-generating capacity. At year-end, the Group's machinery consisted of about 250 envelope machines and 150 overprinting presses. During a period around the turn of the millennium, large investments were made in renewal and upgrading of the machinery to raise productivity. An important element has been increased robotisation. The investment need in existing structure is judged to be limited during the next few years and clearly less than the Group's depreciation costs.

Financial risk management
Information regarding goals and applied principles for financial risk management, use of financial instruments and exposure to currency risks, interest rate risks and liquidity risks is provided in note 1.

European commission investigation
In September 2010 the EU commission carried out inspections of several companies in the envelope and paper industry in Europe, including Bong in Sweden. The commission's investigation is currently underway. Against this background, Bong is not able to reasonably assess the outcome of the commission's judicial review.

Disputes
Bong is not currently involved in any legal disputes.

Environment
Bong complies with the environmental laws and rules that apply in each country to this type of industrial production. By means of measurements and regular inspections, Bong has ensured that emission limits are not exceeded, for example. There are no indications that the laws in this area will change in such a way that Bong would be affected to any significant extent or that Bong would be unable to comply with these requirements in the future.

Sensitivity analysis
Important factors that affect Bong's earnings and financial position are the volume trend for envelope sales, the price trend for envelopes, paper prices, payroll costs, currency rate changes and interest rate levels. The table below shows how Bong's 2010 earnings would have been affected by a change in a number of business-critical parameters. Reported effects should be regarded merely as an indication of how profit after financial items would have been affected by an isolated change in the particular parameter.

Parameter	Change	Impact on earnings after financial items, SEK million
Price	+/– 1%	23 +/–
Volume	+/– 1%	13 +/–
Papper prices	+/– 1%	12 –/+
Payroll costs	+/– 1%	5 –/+
Interest level borrowing	+/– 1%-point	10 –/+

Corporate Governance Report

Effective and clear corporate governance helps secure the confidence of Bong's stakeholder groups while also increasing focus on business benefits and shareholder value in the company.

Bong's Board of Directors and management strive, by means of great transparency, to make it easier for the individual shareholder to follow the company's decision pathways and to clarify where in the organisation responsibilities and powers lie.

Corporate governance

Corporate governance within Bong AB ("Bong") is based on applicable legislation, the regulatory framework for NASDAQ OMX Stockholm and various internal guidelines. The most recent version of the Swedish Code of Corporate Governance ("the Code") was published in February 2010 and covers all listed companies as from 1 February 2010.

Bong applies the Code, and in those cases the company has chosen to disregard the rules of the Code, a reason is given in the appropriate section of the Corporate Governance Report.

Bong is a Swedish limited liability company listed on the Stockholm Stock Exchange

Bong is a Swedish public limited liability company whose shares are traded on the OMX Nordic Exchange Stockholm in the Small Cap segment. Bong has around 1,300 shareholders. The operation is European with subsidiaries in fourteen countries. The number of employees is approximately 2,500.

Responsibility for management and control of Bong is divided between the shareholders at the General Meeting of Shareholders, the Board of Directors, its elected committees and the President/CEO, according to the Swedish Companies Act, other acts and ordinances, the Code and other applicable rules governing listed companies, the Articles of Association and the Board's internal policy instruments.

The purpose of corporate governance is to define a clear division of responsibilities and roles between owners, Board of Directors, executive management and appointed control bodies.

Corporate governance report 2010

Owner influence

Governance of Bong is exercised via the General Meeting of Shareholders, the Board of Directors and the President. The highest decision-making body in Bong is the General Meeting of Shareholders.

The Annual General Meeting (AGM) elects the company's Board of Directors. The duties of the AGM also include adopting the company's financial statements, deciding how to distribute the earnings, and deciding whether or not to discharge the members of the Board and the CEO from liability. The AGM also elects Bong's auditors.

About 30 shareholders, representing 76 per cent of the total number of shares and votes in the company, participated in Bong's Annual General Meeting on 18 May 2010 in Kristianstad. All Board members and the company's auditors were present at the AGM.

Board of Directors

Bong's Board of Directors decides on the Group's overall strategy and on the acquisition and disposal of business entities and real property.

The work of the Board is regulated by the Swedish Companies Act, the Articles of Association and the rules of procedure adopted by the Board for its work.

According to the Articles of Association, the Board of Directors shall consist of at least four and at most nine members. Since the 2010 Extraordinary General Meeting of Shareholders, Bong's Board of Directors has consisted of seven EGM-elected members without deputies and two employee members with two deputies. The Chairman of the Board is Mikael Ekdahl. The statutory meeting of the Board of Directors was on 12 November 2010. The other members of the Board are Alf Tönnesson (Deputy Chairman), Christian W Jansson, Ulrika Eriksson, Stéphane Hamelin, Eric Joan and Anders Davidsson, President and CEO.

Remuneration of the Board

The Chairman of the Board received a fee of SEK 300 thousand for 2010 (300). The amount comprises part of the total director's fee determined by the AGM. No other fee was paid. There is no agreement on pension, severance pay or other benefits.

Information about remuneration of the Board of Directors, as resolved by the 2010 AGM and the EGM on 22 October 2010 can be found in note 4.

Board members elected by the AGM or EGM

Mikael Ekdahl (born 1951)
Member since 2001 and Chairman of the Board since 2003.
L.L.M., graduate economist, Lund University.
Other appointments/positions: Attorney and partner in Mannheimer Swartling Advokatbyrå. Chairman of the Board of Marco AB, Absolent AB and EM Holding AB, vice chairman of Melker Schörling AB, board member of AarhusKarlshamn AB and Konstruktions-Bakelit AB.
Terminated board appointments/partnerships over the past five years: Börje Jönsson Åkeri AB.
Shareholding in Bong (private and via related party): 40,000 shares

Ulrika Eriksson (born 1969)
Board member since 2008.
Graduate economist
Other appointments/positions: Director for Apoteket Konsument. Board member of ProPac International AB.
Terminated board appointments/partnerships over the past five years: –
Previous positions: Several executive positions in Apoteket AB, CEO of Retain Service-handel Sverige AB/AB Svenska Pressbyrån 2001–2005.
Shareholding in Bong (private and via company): 20,000 shares

Anders Davidsson (born 1970)
Board member since 2004.
Graduate economist.
Other appointments/positions: President and CEO of Bong AB Board. Member of AarhusKarlshamn AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong: 182,600 equities

Christian W. Jansson (born 1949)
Board member since 2007.
Graduate economist.
Other appointments/positions: Managing director of KappAhl AB. Chairman of the Board of Apoteket AB, board member of Confederation of Swedish Enterprise, Svensk Handel AB, Kontanten AB, Fata Morgana AB and Vivoline Medical AB.
Terminated board appointments/partnerships over the past five years: Doro AB
Shareholding in Bong (private and via company): 745,246 shares

Alf Tönnesson (born 1940).
Board member since 1989.
Engineering and business education.
Other appointments/positions: Chairman of International Masters Publishers AB (IMP AB), Aktiebolaget Cydonia, NE Nationalencyklopedin AB, Stabenfeldt AB, Fyrklövern AB and Postpac AB, board member of Fleur de Santé AB, Purity Vodka AB and Bra Böcker AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (via Aktiebolaget Cydonia): 3,825,339 shares

Stéphane Hamelin (born 1961).
Elected at the Extraordinary General Meeting on 22 October 2010, effective 12 November 2010.
Other appointments/positions: Chairman of the Hamelin board since 1989.
Terminated board appointments/partnerships over the past five years: –
Previous positions: Active at Borloo law firm from 1984–1989.
Shareholding in Bong (private and via company): 4,352,768

Eric Joan (born 1964).
Elected at the Extraordinary General Meeting on 22 October 2010, effective 12 November 2010.
Graduate of Ecole Polytechnique Universitaire de Lille and Harvard Business School.
Other appointments/positions: MD and CEO for Hamelin.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0

Employee representative

Peter Harrysson (born 1958).
Board member since 1997.
Other appointments/positions: Repairman at Bong Sverige AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0

Christer Muth (born 1954).
Board member since February 2009.
Other appointments/positions: Internal sales, customer service, Bong Sverige AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0

Rules of procedure for Board

The Board of Directors has adopted written rules of procedure and issued written instructions concerning the division of responsibilities between the Board and the President. There are instructions regarding information to be furnished regularly to the Board of Directors.

The Board meets at least four times a year in addition to the statutory meeting. One of the meetings can be held at one of the Group's units and be combined with an in-depth review of this unit.

During financial year 2010, the Board of Directors held five meetings in addition to the statutory meeting.

The control issues incumbent upon the Board of Directors are dealt with by the Board in its entirety and by the Compensation Committee. In addition, the Board's auditors report their assessments of the company's control to the Board's Audit Committee. As a rule, the subsidiary managers participate at the Board meetings as rapporteurs.

Independent members and attendance at Board meetings

Bong complies with the Stockholm Stock Exchange's listing agreement and the Code with regard to requirements on independent Board members.

Composition of the Board of Directors and number of formal meetings in 2010

	Independent of company[1]	Independent of major shareholders[1]	Attendance Board Meetings
Mikael Ekdahl	Yes	No	5
Ulrika Eriksson	Yes	Yes	5
Anders Davidsson	No	No	5
Christian W Jansson	Yes	Yes	5
Patrick Holm	Yes	Yes	4
Alf Tönnesson	Yes	No	4
Stéphane Hamelin	Yes	No	1
Eric Joan	Yes	No	1

1) The assessment of the independence of the Board members has been made in accordance with NASDAQ OMX Stockholm's Rules for Issuers and criteria of independence.

Restrictions on voting rights

The company's articles of association do not contain any limitations in respect of how many votes each shareholder may cast at a General Meeting of Shareholders.

Authorisation provided by the Extra Ordinary General Meeting of Shareholders

The EGM has authorised the Board of Directors to decide that the company will acquire treasury shares as follows:

1. The authorisation may be used on one or more occasions, however before the date of the 2011 Annual General Meeting.
2. The number of shares needed for delivery of LVR shares to participants in LVR, though not more than 400,000 shares, may be acquired to secure delivery thereof. In the event that the acquired shares should remain after LVR share payment is complete, they shall remain in Bong's ownership and be used for future incentive programmes or as otherwise decided by the General Meeting.
3. Purchase in accordance with point 2 will take place on NASDAQ OMX Stockholm to a price which is within the registered spread at any time, i.e. an interval between the highest buying rate and the lowest selling rate.

Nomination Committee

The AGM has appointed a special Nomination Committee whose task is to submit proposals to the AGM in consultation with the principal owners on the composition of the Board of Directors.

The Nomination Committee for the 2011 AGM consists of four members: Alf Tönnesson, chairman (Aktiebolaget Cydonia), Mikael Ekdahl (Melker Schörling AB), Peter Edwall (Ponderos Securities AB) and Erik Sjöström (Skandia). The Nomination Committee has dealt with the issues that follow from the Code. The Nomination Committee has had one formal meeting and regular contacts.

Compensation Committee

The Board of Directors has appointed a Compensation Committee consisting of Alf Tönnesson (chairman) and Mikael Ekdahl.

The Committee's task is to give the Board recommendations regarding the principles for remuneration, including performance-based remuneration to the company's senior executives. Questions concerning the President's terms of employment, remuneration and benefits are prepared by the Compensation Committee and decided by the Board of Directors.

The President's salary consists of a fixed portion and a variable portion. The variable portion, which is re-examined annually, is dependent on the achievement of goals for the company and the President.

Audit Committee

According to the Swedish Companies Act (2005:551), the Board of Directors shall establish an Audit Committee. If the Board finds it more appropriate, the entire board may perform the tasks of the Audit Committee provided that the board members included in corporate management do not participate in the work.

Bong's Board of Directors established an audit committee at a statutory Board meeting on 12 November 2010. Mikael Ekdahl is Chairman of the Audit Committee and Christian W. Jansson is a member of the Committee. The Audit Committee shall oversee that the company's accounts are prepared with full integrity for the protection of the interests of shareholders and other parties. The Board of Directors decided to appoint only two members because of their expertise in this field.

External auditors

The 2008 AGM elected Authorised Public Accountants Eric Salander and Mathias Carlsson, PwC, as Bong's auditors for the coming three-year period.

The auditors review the Board's and the President's administration of the company and the quality of the company's audit documents.
The auditors report the results of their review to the shareholders via the Audit Report, which is presented at the AGM. In addition, the auditors submit detailed accounts to the Board of Directors at least once a year.

President and Group Management

The President leads the day-to-day management of the company in accordance with the Board's guidelines and directions. The President is responsible for keeping the Board of Directors informed and ensuring that the Board has all the factual material needed to make informed decisions. The President is a member of the Board of Directors. The President also keeps the Chairman of the Board informed, by continuous dialog, of the development of the Group.

The President and others in the Group Management hold formal meetings once a month as well as a number of informal meetings to go through the results of the previous month and discuss strategy questions.

In 2010, Bong's Group Management consisted of 6 people, none of whom are women. The Group consists of the Parent Company Bong AB and a number of subsidiaries, as reported in note 14, page 39 of the Annual Report.

Reporting by subsidiaries takes place on a monthly basis. The boards of the subsidiaries preferably consist of members of Bong's corporate management and the Parent Company's board of directors.

Remuneration to Group Management

The 2010 EGM decided that the Group Management's salaries should consist of a fixed basic salary plus variable performance-based remuneration. The variable remuneration can be paid for performance that exceeds what is normally expected of a member of the Group Management after an evaluation has been made of individual performances and the company's reported profit.

The extent to which pre-established goals for the company and the senior executive have been achieved is taken into account when establishing the variable remuneration.

The total remuneration for members of the Group Management should be at a competitive level.

Internal control

The Board of Directors is responsible for ensuring that there is a good system for internal control and risk management.

Responsibility for creating good conditions for working with these matters is delegated to the President. Both Group Management and managers at different levels in the company bear this responsibility in their respective areas. Powers and responsibilities are defined in policies, guidelines and instructions for authorisation rights.

The Board's statement regarding internal control

According to the Code, the Board of Directors shall annually submit a description of the company's system for internal control and risk management regarding financial reporting. This report is prepared in accordance with the Code.

Organisation for internal control

Internal control regarding financial reporting is a process designed to provide reasonable assurance regarding the reliability of the external and financial reporting and whether the financial statements are prepared in accordance with generally accepted accounting principles, applicable acts and ordinances and other requirements on listed companies. The internal control activities are included in Bong's administrative procedures. Internal control regarding financial reporting in Bong can be described in accordance with the following framework.

Control environment

Internal control in Bong is based on a control environment that includes values and management culture, follow-up, a clear and transparent organisational structure, division of duties, the duality principle, quality and efficiency of internal communications.

The basis of the internal control regarding financial reporting consists of a control environment with organisation, decision-making channels, powers and responsibilities that have been documented and communicated in governing documents such as internal policies, guidelines and instructions, as well as job descriptions for controlling functions. Examples are rules of procedure for the Board and President, instructions for internal control and reporting, information policy, authorisation instructions and reporting instructions.

Control activities

The control activities include both general and more detailed controls intended to prevent, detect and correct errors and non-conformances. The control activities are devised and documented at the corporate and departmental level.

The internal regulatory framework with policies, guidelines and instructions comprises the most important tool for furnishing information and instructions for the purpose of securing the financial reporting. In addition, a standardised reporting package is used by all subsidiaries in order to ensure consistent application of Bong's principles and coordinated financial reporting.

Risk assessment

Bong continuously evaluates the risks surrounding reporting that may arise. Furthermore, the Board of Directors is responsible for ensuring compliance with insider laws and standards for furnishing information. The overall financial risks are defined and taken into consideration in establishing the Group's financial goals.

The Group has an established system for management of business risks that is integrated in the Group's control process for business planning and performance. In addition, seminars are routinely held on business risks and risk assessment within the Group. There are procedures for ensuring that significant risks and control deficiencies are, when necessary, detected by the Group Management and the Board of Directors on a periodic basis.

Information and communications

In order to ensure effective and correct information, both internally and externally, good communications are required. Within the Group there are guidelines for ensuring that relevant and essential information is communicated within the Group, within each unit and between the management and the Board of Directors. Policies, manuals and work descriptions are available on the company's intranet and/or in printed form. In order to ensure that external information is correct and complete, Bong applies an information policy adopted by the Board of Directors.

Follow-up

The President is responsible for ensuring that internal control is organised and followed up in accordance with the guidelines established by the Board of Directors. Financial governance and control are exercised by the Group accounting function. The financial reporting is analysed monthly at the detailed level. The Board of Directors has regular access to financial reports, and the company's financial situation is dealt with at every Board meeting. Every quarterly report is gone through by the Board of Directors. The President is responsible for ensuring that independent objective reviews are performed for the purpose of systematically evaluating and proposing improvements in the Group's processes for governance, internal control and risk management. In view of this and how the financial reporting has otherwise been organised, the Board of Directors finds no need for a special internal auditing function.

Proposed distribution of earnings

The Board of Directors proposes that the earnings available for distribution, SEK 550,797,337, be disposed of as follows:

Dividend to shareholders SEK 1 per share	17,480,995
Balance carried forward	533,316,342
Total	**550,797,337**

Board's opinion concerning proposed dividend

After the proposed dividend, the Parent Company's equity/assets ratio is 36 per cent and the Group's equity/assets ratio is 20 per cent. This is judged sufficient to maintain liquidity in the company and the Group at an adequate level.

The Board's view is that the proposed dividend does not hinder the Parent Company or the other Group companies from meeting their short- or long-term obligations, or from carrying out the necessary investments. Thus the proposed dividend is justifiable in terms of the provisions of Chapter 17, section 3, paragraphs 2-3 of the Swedish Companies Act (prudence rule).

Bong contributes to sustainable development

Envelopes and packages are largely made of renewable materials, such as fine paper. Emissions from the manufacturing process are small. Transports of both raw materials and finished goods, however, consume a relatively large amount of energy. The Hamelin merger provides opportunities to reduce shipments between the Group's units, thus reducing energy consumption and emissions.

Entire life cycle

Bong is active along the entire life-cycle for envelopes and packaging. From conversion of fine paper to recycling. Important environmental concerns include the origin of the wood raw material, production of fine paper and conversion into envelope and packaging, transports to and from Bong's production facilities, as well as consumption and recycling of the products.

Pulpwood from certified forests

Bong buys fine paper exclusively from highly-respected manufacturers that use country-of-origin labelled raw materials. The raw material consists mainly of new fibers and is taken from certified forests.

The basic raw material for the paper used in the manufacture of envelopes is renewable and all paper used meets the requirements set by customers and authorities.

Fine paper production

The biggest volume consists of uncoated white fine paper, while the remaining volumes are unbleached, brown kraft paper and waste-based paper. Through collaboration with suppliers, the paper is constantly being developed to ensure that the envelopes are optimally environmentally compatible.

Envelope production

Leftover ink and other input materials used in the production process are collected and recycled or disposed of in an approved manner. Tough environmental criteria are also imposed on other components such as size, ink and window film. Water-based paints and adhesives without solvents are used to a greater extent.

The remaining paper, production-related waste, is sorted according to grade and sold to be incorporated as waste paper in various paper products. Of the plants' total waste quantity, more than 90 per cent is recycled today. The remainder is used for energy recovery or disposed of by landfilling. The waste is hauled away in accordance with current ordinances, and there is no storage of hazardous waste.

Short transports

Bong uses highly-respected shippers to transport both input materials and finished goods. The merger with Hamelin improves opportunities for Bong to deliver to customers from nearby factories, which helps to reduce fuel consumption and carbon dioxide emissions.

Purchasing policy

For both economic and environmental reasons, Bong strives to concentrate purchases to fewer suppliers. This policy applies to raw material suppliers and service providers, as well as to transports. Fewer, but stronger relationships allow the company to make demands and improve conditions. Raw materials account for approximately two thirds of Bong's total purchases, about 75 per cent of which comprises fine paper.

Certification and eco-labels

Bong is affiliated with Paper by Nature, an organisation that developed the only pan-European environmental standard for converted paper products. Paper by Nature covers all stages of a product's life cycle. It is the first clear, reliable and all-encompassing certification of converted paper products. The label guarantees that raw materials come from responsibly managed forests and that the product was manufactured in certified facilities.

Bong intends to certify all its facilities according to Paper by Nature. Nine facilities were certified as of yearend 2010. The Group acquired seven certified facilities through the Hamelin merger.

Bong's products are usually also Swan-labelled FSC-certified (Forest Stewardship Council).

Environmental Management System

Bong's ISO 14001 environmental management system translates environmental policy into practical action through systematic initiatives. Besides imposing demands on the company's own operations, the environmental management system gives Bong a means to constructively influence suppliers, carriers and others to work with environmental issues at their companies.

Employees

Motivated, skilled and healthy employees are a crucial competitive factor on Bong's markets. Bong strives to create a sustainable work environment that attracts, motivates and develops the workforce.

Employee policy

- Bong is mindful of good relations with employees in the Group, based on mutual respect
- No form of forced labour or child labour is permitted within the Bong Group. The minimum hiring age is the age after completion of compulsory schooling
- Bong offers equal opportunities for everyone without regard for race, colour, gender, nationality, religion, ethnic affiliation or other distinguishing characteristics
- All employees shall be provided with a safe and healthy work environment
- In all companies in the Group, the employees shall be entitled to form or join a trade union in compliance with local laws or principles

Bong's personnel policy in practice

Bong is a modern company with short and informal decision-making pathways. The information policy is based on transparency and participation. Managers continually inform employees on local and company-wide developments. Everyone is encouraged to take an active part in decisions concerning improvements in the working environment that result in fewer work-related injuries, higher productivity and better quality.

Bong also strives to reward extraordinary efforts. Throughout the Group small bonus programmes are offered related to parameters such as the unit's earnings, production volume, number of claims and delivery reliability. In some cases, such a bonus may be paid monthly.

Bong strives to reduce sickness absence by means of increased information to managers and other employees on the importance of health promotion. In 2010 sickness absence at Bong was 3.0 per cent (3.4); in Sweden it was 3.5 per cent (3.8).

Bong's code of conduct

Bong has adopted a code of conduct that lays down the fundamental principles by which the company strives to do business:

- Bong complies with legal requirements in each country where the Group carries on operations
- Bong abides by the UN's Universal Declaration of Human Rights
- Bong's business activities will be conducted with integrity and ethics
- Bong is open to, and wishes to be effective in, dialogues with its stakeholders
- Bong strives to inspire those who are affected by the company's operations to work in the spirit of the code of conduct

Bong denounces the practice of bribery

Bong expects its employees to handle all business relations in a businesslike manner, correctly and respectfully. Corruption, bribery or anti-competitive practices disrupt markets and jeopardise social and democratic development. Bong denounces such practices.

- Bong will behave correctly in all business-related situations
- Bong will comply with existing competition legislation
- Bong does not offer or give bribes, nor does it accept bribes to maintain or obtain new business relations.

Five-year overview

KEY FIGURES	2010	2009	2008	2007	2006
Revenue, SEKm	2,326	1,915	1,937	1,991	1 985
Operating profit/loss, SEKm	–91	65	74	60	40
Profit after tax, SEKm	–97	24	10	16	–1
Cash flow after investing activities, SEKm	–277	169	144	1	–7
Operating margin, %	–3.9	3.4	3.8	3.0	2.0
Profit margin (%)	–5.6	1.4	1.0	0.6	0.1
Capital turnover rate, times	1.2	1.1	1.1	1.1	1.2
Return on equity, %	neg	3.6	1.8	2.8	neg
Return on capital employed, %	neg	5.5	5.6	4.9	3.1
Equity ratio, %	21	36	34	33	31
Net loan debt, SEKm	1,062	589	745	829	807
Net debt/equity ratio, times	2.00	0.98	1.18	1.45	1.50
Net loan debt/EBITDA, times	42.7	3.8	4.4	5.4	5.7
EBITDA/net financial items, times	0.6	4.5	3.1	3.2	3.8
Average number of employees	1,538	1,220	1,270	1,346	1,379
Number of shares					
Basic number of shares outstanding at end of period	17,480,995	13,128,227	13,128,227	13,128,227	13,017,298
Diluted number of shares outstanding at end of period	18,727,855	13,230,227	13,332,227	13,428,227	13,651,180
Average number of shares, basic	14,216,219	13,128,227	13,128,227	13,079,425	13,006,000
Average number of shares, diluted	14,528,134	13,230,227	13,332,227	13,379,425	13,651,180
Earnings per share					
Before dilution, SEK	–6.97	1.65	0.80	1.19	–0.04
After dilution, SEK	–6.97	1.63	0.78	1.17	–0.04
Equity per share					
Before dilution, SEK	30.39	45.56	47.91	43.54	41.31
After dilution, SEK	28.37	45.77	48.22	43.98	42.30
Other data per share					
Dividend, SEK	1.00	1.00	1.00	1.00	1.00
Quoted market price on the balance sheet date, SEK	32	21	12	42	68
P/E ratio, times	neg	13	15	36	neg
Price/Equity before dilution, %	105	46	25	96	165
Price/Equity after dilution, %	113	46	25	96	160

The share

Bong issued shares in connection with the acquisition of Hamelin. On 31 December 2010 the number of shares in Bong AB was 17,480,995. After full conversion the number of shares will be 18,727,855

Share performance and sales

The Bong share jumped 48.6 per cent in 2010. That year the OMX Stockholm PI (an index for all listed shares on the Stockholm Stock Exchange) rose 23.1 per cent. The OMX Stockholm Small Cap PI, an index that measures price performance of companies whose size is comparable with Bong, climbed 22.1 per cent.

In 2010 shares sold corresponded with 11 per cent of the average value of outstanding share capital during the year.

Shareholders

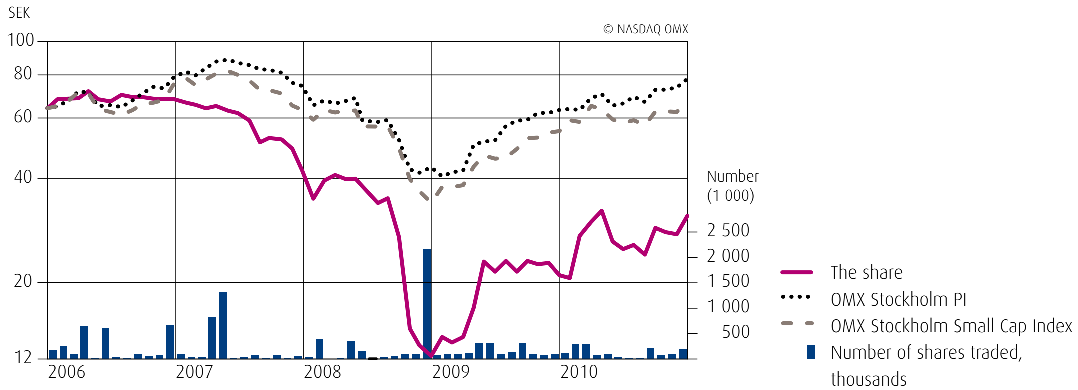
The number of shareholders as at 31 January 2010 was 1,328. Hamelin is Bong's largest shareholder with 24.9 per cent of the votes and capital. Melker Schörling and Alf Tönnesson are the second largest shareholders, each holding 21.9 percent of the votes and capital.

Warrants

In accordance with the decision of the General Meeting of Shareholders in 2005, warrants were sold to staff in the Group Management. The warrants entitle the holders to subscribe for a total of 300,000 new shares, of which 295,000 warrants have been purchased by senior executives. In 2010 102,000 warrants matured, which means that all warrants have now expired.

Convertible debentures

Bong issued convertible debentures with a total nominal value of EUR 4 million to Hamelin as part of the purchase price for Hamelin's envelope division. The convertible debentures can be converted into 1,246,860 new shares in Bong.



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Consolidated income statements

INCOME STATEMENT

SEK THOUSAND	Note	2010	2009
Revenue	2	2,326,126	1,914,717
Cost of goods sold	3–4, 6, 8	–1,905,568	–1,510,583
Gross profit		**420,558**	**404,134**
Selling expenses	3–4, 6, 8	–201,333	–188,361
Administrative expenses	3–6, 8	–193,605	–156,191
Other operating income	7, 12	23,756	15,939
Other operating expenses	7, 12	–138,212	–10,387
Share in profit in associated companies	19	–2,149	151
Operating profit/loss		**–90,985**	**65,285**
Financial income	9, 12	5,677	13,602
Financial expenses	10, 12	–46,642	–48,423
Total financial income and expenses		**–40,965**	**–34,821**
Result before tax		**–131,950**	**30,464**
Income tax	11	34,657	–6,213
NET RESULT FOR THE YEAR		**–97,293**	**24,251**
Attributable to:			
Parent Company's shareholders		–99,049	21,618
Non-controlling interests		1,756	2,633
Earnings per share attributable to			
Parent Company's shareholders			
– basic, SEK	13	–6.97	1.65
– diluted, SEK	13	–6.97	1.63

STATEMENTS OF COMPREHENSIVE INCOME

SEK THOUSAND	2010	2009
Net result for the year	–97,293	24,251
Other comprehensive income		
Cash flow hedges	2,046	–2,328
Hedging of net investments	57,201	13,122
Exchange rate differences	–129,347	–47,214
Revaluation reserve on acquisition of shares in subsidiaries	–	5,621
Income tax relating to components of other comprehensive income	–12,634	–7,661
Other comprehensive income after tax	**–82,734**	**–38,460**
TOTAL COMPREHENSIVE INCOME	**–180,027**	**–14,209**
Attributable to:		
Parent Company's shareholders	–181,452	–18,709
Non-controlling interests	1,425	4,500

Consolidated balance sheet

SEK THOUSAND	Note	2010-12-31	2009-12-31
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	14	532,442	407,903
Other intangible assets	15	35,311	8,323
Total		**567,753**	**416,226**
Tangible assets			
Property, plant and equipment	16	318,873	228,005
Plant and machinery	16–17	327,750	281,777
Equipment, tools, fixtures, and fittings	16	45,478	32,301
Construction in progress	18	15,264	8,307
Total		**707,365**	**550,390**
Financial assets			
Interests in associated companies	19	8,676	12,476
Interests in other companies	20	1,000	1,381
Deferred tax assets	21	98,877	65,364
Other non-current receivables	22	3,102	16,388
Total		**111,655**	**95,609**
Total non-current assets		**1,386,773**	**1,062,225**
Current assets			
Inventories etc.			
Raw materials and consumables		135,052	51,366
Products in progress		9,485	6,021
Finished products and merchandise		220,452	150,395
Total	23	**364,989**	**207,782**
Current receivables			
Trade receivables	24	581,184	243,401
Current tax asset		5,287	3,557
Other current receivables	25	16,040	29,913
Deferred expenses and accrued income		42,921	37,025
Total		**645,432**	**313,896**
Cash and cash equivalents		149,444	74,290
Total current assets		**1,159,865**	**595,968**
TOTAL ASSETS		**2,546,638**	**1,658,193**

SEK THOUSAND	Note	2010-12-31	2009-12-31
EQUITY AND LIABILITIES			
Equity			
Share capital	33	174,810	131,282
Other contributed capital		475,953	391,333
Reserves	32	−43,033	39,370
Retained earnings including net result for the year		−78,595	33,582
Equity attributable to equity holders of the Parent		**529,135**	**595,567**
Non-controlling interests		2,106	2,566
Total equity		**531,241**	**598,133**
Non-current liabilities			
Borrowings	26	873,256	458,446
Deferred tax liabilities	21	21,698	19,376
Pension obligations	28	157,858	126,080
Other provisions	27	30,000	–
Other non-current liabilities		2,745	1,240
Total non-current liabilities		**1,085,557**	**605,142**
Current liabilities			
Borrowings	26	153,504	78,418
Trade payables		396,148	198,438
Current tax liability		9,896	23,105
Other current liabilities	25	81,820	22,576
Other provisions	27	69,841	–
Accrued expenses and deferred income	29	218,631	132,381
Total current liabilities		**929,840**	**454,918**
TOTAL EQUITY AND LIABILITIES		**2,546,638**	**1,658,193**

Statement of changes in consolidated equity

SEK thousand	Note	Share capital	Share premium	Reserves	Retained earnings incl. net result for the year	Non-controlling interests	Total equity
		Attributable to Parent Company shareholders					
Opening balance at 1 January 2009		131,282	391,333	79,698	25,092	1,563	628,968
Comprehensive income							
Net result for the year					21,618	2,633	24,251
Other comprehensive income							
Cash flow hedges, after tax				−1,716			−1,716
Hedging of net investments, after tax				9,671			9,671
Revaluation reserve on acquisition of shares in subsidiaries				3,426		2,195	5,621
Exchange rate differences, after tax				−51,708		−328	−52,036
Total other comprehensive income	32			**−40,327**	**0**	**1,868**	**−38,460**
Total comprehensive income				**−40,327**	**21,618**	**4,500**	**−14,209**
Transactions with shareholders							
Dividend to Parent Company's shareholders					−13,128		−13,128
Dividend to non-controlling interests						−3,498	−3,498
Total transactions with shareholders					**−13,128**	**−3,498**	**−16,626**
CLOSING BALANCE AT 31 DECEMBER 2009	32, 33	**131,282**	**391,333**	**39,370**	**33,582**	**2,566**	**598,133**
Opening balance at 1 January 2010		131,282	391,333	39,370	33,582	2,566	598,133
Comprehensive income							
Net result for the year					−99,049	1,756	−97,293
Other comprehensive income							
Cash flow hedges, after tax				1,508			1,508
Hedging of net investments, after tax				42,157			42,157
Exchange rate differences, after tax				−126,068		−331	−126,399
Total other comprehensive income	32			**−82,403**		**−331**	**−82,734**
Total comprehensive income				**−82,403**	**−99,049**	**1,425**	**−180,027**
Transactions with shareholders							
New issue		43,528	86,620				130,148
Issue costs			−2,000				−2,000
Dividend to Parent Company's shareholders	38				−13,128		−13,128
Dividend to non-controlling interests						−1,885	−1,885
Total transactions with shareholders		**43,528**	**84,620**		**−13,128**	**−1,885**	**113,135**
CLOSING BALANCE AT 31 DECEMBER 2010	32, 33	**174,810**	**475,953**	**−43,033**	**−78,595**	**2,106**	**531,241**

Consolidated statement of cash flows

SEK THOUSAND	Note	2010	2009
OPERATING ACTIVITIES			
Operating profit/loss		–90,985	65,285
Depreciation, amortisation, and impairment losses		113,729	90,096
Financial income received		2,998	3,053
Finance expenses paid		–43,963	–37,876
Tax paid		–19,149	–2,061
Other items not affecting liquidity	34	61,815	–33,106
Cash flow from operating activities before change in working capital		**24,445**	**85,391**
Change in working capital			
Inventories		6,978	45,102
Current receivables		–25,380	30,761
Current operating liabilities		46,638	22,239
Cash flow from operating activities		**52,681**	**183,493**
INVESTING ACTIVITIES			
Acquisition of intangible and tangible assets incl. advance payments to suppliers		–67,956	–36,658
Disposal of intangible and tangible assets		40,707	27,276
Acquisition of subsidiaries, net of cash required		–302,537	–5,187
Cash flow from investing activities		**–329,786**	**–14,569**
Cash flow after investing activities		**–277,105**	**168,924**
FINANCING ACTIVITIES			
Proceeds from borrowings		446,733	60,000
Amortisation of loans		–71,937	–235,689
Dividend		–13,239	–16,626
Cash flow from financing activities		**361,557**	**–192,315**
Cash flow for the year		**84,452**	**–23,391**
Cash and cash equivalents at start of year		74,290	99,087
Exchange rate difference in cash and cash equivalent		–9,298	–1,406
CASH AND CASH EQUIVALENTS AT YEAR-END		**149,444**	**74,290**

Accounting policies

Bong is a leading European provider of specialised packaging and envelopes offering solutions for distribution and packaging of information, advertising material and lightweight goods. After the acquisition of Hamelin's envelope division in October 2010 the Group expects to achieve sales of about SEK 3.5 billion on an annual basis. The Group has operations in Sweden, Norway, Denmark, Finland, Estonia, Latvia, the UK, the Netherlands, Belgium, Luxembourg, Germany, France, Poland, Spain and Russia. Bong has strong market positions, especially in northern Europe, Germany, France and the UK. This annual accounts was approved by the Board of Directors on 6 April 2011 for publication.

The most important accounting policies applied in the preparation of the consolidated financial statements are described below. These policies were applied consistently for all years presented, unless otherwise stated. The consolidated accounts have been prepared in accordance with International Financial Accounting Standards (IFRSs) and IFRIC interpretations as adopted by the EU, RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. The consolidated accounts have been prepared in accordance with the cost method, except with regard to financial assets and liabilities (including derivative instruments) measured at fair value through profit or loss.

Preparing financial statements in accordance with IFRS requires the use of some important accounting estimates. It also requires that management make certain judgements in the application of the company's accounting policies. Those areas that include a high degree of assessment, which are complex, or in which assumptions and estimations are of material significance for the consolidated financial statements are stated in 36.

Consolidated accounts

Subsidiaries

Subsidiaries are all companies where the Group has the right to dictate financial and operational strategies in a way that normally accompanies a shareholding amounting to more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The consolidated accounts include companies acquired during the year from the date when control passes to the Group. Companies disposed of are included in the consolidated accounts until the date when control no longer exists.

The acquisition method is used for accounting of the Group's business combinations. The consideration for the acquisition of a subsidiary is the fair value of the transferred assets, liabilities and the shares issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. For each acquisition, the Group determines whether all non-controlling holdings in the acquired company should be recognised at fair value or at the holding's proportionate share of the acquired subsidiary's net assets. Surplus amount from purchase price, possible minority and fair value of previous possessions at the acquisition date compared to the Group's share of acquired net assets are reported as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Transactions and non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Associated companies

Associated companies are all those companies where the Group has a significant, but not controlling, influence, which as a rule is true for shareholdings that give them between 20 per cent and 50 per cent of the votes. Holdings in associated companies are recognised in accordance with the equity method and are initially measured at cost. The Group's carrying amounts for holdings in associated companies include goodwill identified on acquisition, net after any impairment losses. The group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Accumulated changes after the acquisition are recognised as a change in the holding's recognised carrying amount. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated in relation to the Group's holding in the associated company. Unrealised losses are also eliminated, unless the transaction constitutes evidence of the existence of an impairment loss for the transferred asset. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses in associated companies are recognised in the Income Statement.

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective.

The revision to IAS 27 contained consequential amendments to IAS 28,'Investments in associates', and IAS 31, 'Interests in joint ventures'. Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings. Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

Segment reporting

External financial information shall reflect the information and the measures that are used internally within the company to manage the operation and make decisions about resource allocation. The company shall identify the level where the company's chief operating decision maker regularly reviews sales and earnings. These levels are defined as segments. Bong's chief operating decision maker is the company's CEO. The regular internal reporting of results that is made to the CEO and that meets the criteria for constituting a segment is done for the Group as a whole, which means that Bong reports the whole Group as the company's only segment.

Translation of foreign currencies

Functional currency and reporting currency

Items included in the financial statements for the different entities in the Group are stated in the currency that is used in the economic environment where the enterprise in question is mainly active (functional currency). The Swedish Krona (SEK), which is the Parent Company's functional and reporting currency, is used in the consolidated accounts.

Transactions and line items

Transactions in foreign currencies are translated to the functional currency at the exchange rate prevailing on the transaction date. Exchange gains and losses arising in connection with the payment of such transactions and the translation of monetary assets and liabilities in foreign currencies at the closing rate are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The earnings and financial position of all Group companies with another functional currency than the reporting currency are translated as follows: Assets and liabilities and are translated at the closing rate and all items in the Income Statement at the average rate. Exchange rate differences are recognised in other comprehensive income. Goodwill and adjustments of fair value that arise in connection with the acquisition of a foreign operation are treated as assets and liabilities in this operation and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are measured at cost less depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are added to the asset's carrying amount or are recognised as a separate asset, whichever is suitable, only when it is likely that the future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured reliably. All other types of repairs and maintenance are recognised as costs in the Income Statement during the period they arise. Land is not subject to depreciation. Depreciation of other assets, in order to allocate their cost down to the calculated residual value, is based on the asset's calculated useful life and is calculated on a straight-line basis from the time the plant is taken into service.

The following depreciation schedules are applied:

Buildings	25–33 years
Land improvements	20 years
Plant and machinery	10–15 years
Equipment, tools, fixtures, fittings, vehicles and computer equipment	5–10 years
Other intangible assets	3–8 year

The residual values and useful lives of the assets are tested every balance sheet date and adjusted if necessary. An impairment loss is recognised equal to the amount by which the carrying amount of the asset exceeds its recoverable amount.

Gains and losses on disposal are determined by comparing sales revenue with carrying amount and are recognised in profit or loss.

Intangible assets

Goodwill

Goodwill consists of the amount by which the cost of the acquisition exceeds the fair value of the Group's share of the acquired subsidiary's or associated company's identifiable net assets on the acquisition date. Goodwill on acquisition of subsidiaries is recognised as an intangible asset. Goodwill is subjected to impairment testing annually and is recognised at cost less accumulated impairment losses. Gain or loss on disposal of an entity includes the remaining carrying amount for the goodwill attributable to the entity. In connection with impairment testing, the Group is treated as a cash-generating unit.

Software

Software of a standard character is recognised as an expense. Expenditure for software that has been developed or otherwise extensively adapted for the Group is capitalised as an intangible asset if the software is likely to have economic benefits that exceed the cost after one year. Capitalised expenditure acquired software is amortised on a straight-line basis over its useful life, but no longer than over five years. The amortisation is included in the Income Statement item "Administrative expenses".

Customer relations

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories: Financial assets measured at fair value through profit or loss, loan receivables and trade receivables, and loans and other financial liabilities. The classification is dependent on the purpose for which the financial asset was acquired. Management establishes the classification of the financial assets on initial recognition.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loan receivables and trade receivables

Loan receivables and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortised cost. Amortised cost is determined on the basis of the effective interest rate calculated at the acquisition date. Trade receivables are recognised at the amount that is expected to be recovered, i.e. less doubtful debts.

Loans and other financial liabilities

Loans and other financial liabilities, for example trade payables, belong to this category. The liabilities are measured at amortised cost.

Recognition and derecognition in the Balance Sheet

A financial asset or financial liability is recognised in the Balance Sheet when the company becomes a party to the contractual terms of the instrument. Trade receivables are recognised in the Balance Sheet when an invoice has been sent. A liability is recognised when the counterparty has performed its contractual obligations and there is a contractual obligation to pay, even if no invoice has been received. Trade liabilities are recognised when an invoice has been received. A financial asset is derecognised when the entitlements in the contract are realised, mature, or fall outside the control of the company. The same applies to part of a financial asset. A financial liability is derecognised when the obligation in the contract is discharged or otherwise extinguished. The same applies to part of a financial liability.

A financial asset and a financial liability are offset and the net amount recognised in the Balance Sheet when, and only when, an entity has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The purchase or sale of financial assets is recognised on the trade date, which is the day when the company committed itself to purchase or sell the asset.

Classification and measurement

Financial instruments that are not derivatives are recognised initially at cost, equivalent to the fair value of the instrument plus transaction costs for all financial instruments except for those classified as financial assets that are recognised at fair value through profit or loss, which are recognised at fair value exclusive of transaction costs. A financial instrument is classified on initial recognition based on the purpose for which the instrument was acquired. The classification determines how the financial instrument is measured after initial recognition as described below.

Derivatives and hedge accounting

The Group's derivative instruments have been acquired to financially hedge the interest rate and currency risks to which the Group is exposed. An embedded derivative is accounted for separately if it is not closely related to the host contract. Derivatives are initially recognised at fair value, which means that transaction costs are charged to the profit for the period. After initial recognition, derivative instruments are measured at fair value and changes in value are recognised in the manner described below.

To meet the requirements on hedge accounting according to IAS 39, there must be a clear relationship with the hedged item. Furthermore, hedging must effectively protect the hedged item, documentation must be provided on the hedge, and it must be possible to measure this effectiveness. Gains and losses with regard to hedges are recognised in profit or loss at the same time as gains and losses for the hedged items are recognised. In hedge accounting, changes in value are recognised in the hedging reserve in equity.

Receivables and liabilities in foreign currencies – hedging of fair value

Forward exchange contracts are used to hedge receivables or liabilities against currency risk. When a hedging instrument is used to hedge a fair value, the derivative is recognised at fair value in the Balance Sheet and the hedged asset or liability is also recognised at fair value in respect of the hedged risk. The change in value of the derivative is recognised in profit or loss together with the change in value of the hedged item. Changes in value pertaining to operating receivables and liabilities are recognised in operating profit or loss, while changes in value pertaining to financial receivables and liabilities are recognised in net financial items.

Cash flow hedges

The forward exchange contracts used to hedge future cash flows and forecast sales in foreign currencies are recognised in the Balance Sheet at fair value. The changes in value are recognised directly in other comprehensive income until the hedged flow hits the Income Statement, whereby the accumulated change in value of the hedging instrument is transferred to the Income Statement, where it meets and matches the profit or loss effects of the hedged transactions.

Hedging of interest rate risk

Interest rate swaps are used to hedge the uncertainty in future interest flows from loans at variable interest rates. The interest rate swaps are measured at fair value in the Balance Sheet. In the Income Statement the interest coupon portion is recognised continuously as interest income or expense. Any other change in value of the interest rate swap is recognised directly in other comprehensive income until the hedged item affects the Income Statement and as long as the criteria for hedge accounting and effectiveness are met. The gain or loss attributable to the ineffective portion is recognised in profit or loss.

Hedging of net investments

Investments in foreign subsidiaries (net assets including goodwill) have to some extent been hedged by means of foreign currency loans or forward exchange contracts, which are translated on the balance sheet date at the closing rate. Translation differences on financial instruments used as hedging instruments to hedge a net investment in a Group company are recognised, the extent the hedge is effective, in equity. This is intended to offset the translation differences that affect equity when the Group companies are consolidated.

Inventories

Inventories are measured, with application of the first-in first-out principle, at the lower of cost and net realisable value on the balance sheet date. The cost of finished goods and work in process includes raw materials, direct labour costs, other direct costs and attributable indirect production costs (based on normal production capacity). Borrowing costs are not included. The net realisable value is the expected selling price in the ordinary course of business less applicable variable selling expenses.

Trade receivables and other receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are distinguished by the fact that they arise when the Group furnishes goods directly to a customer without the intention to trade the resulting receivable. They are included in current assets with the exception of items with a due date more than 12 months after the balance sheet date, which are classified as non-current assets. Trade receivables are initially recognised at fair value and thereafter at amortised cost by applying the effective interest method, less provision for impairment. Provision is made for impairment of trade receivables when objective evidence exists that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the effective interest rate. The amount of the provision is recognised in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents include, besides cash on hand and demand deposits, other short-term financial investments with maturity dates within three months of the acquisition date.

Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares or options are recognised, net after tax, in equity as a deduction from the proceeds of the issue.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are initially recognised at fair value and subsequently measured at amortised cost by applying the effective interest method.

Borrowings

Liabilities to credit institutions and, in the Parent Company, liabilities to subsidiaries are initially recognised at fair value, net after transaction costs. Borrowings are thereafter recognised at amortised cost, and any difference between the amount received (net after transaction costs) and the repayment amount is recognised in the Income Statement allocated over the term of the loan by applying the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability at least 12 months after the balance sheet date.

Bank credit lines are recognised as borrowings in current liabilities on the Balance Sheet.

Income taxes

The tax expense for the period includes current tax and deferred tax. The current tax expense is calculated based on the tax rules that have been enacted or substantively enacted by the balance sheet date in those countries where the Group companies are active and generate taxable revenue.

Deferred tax is calculated in its entirety, in accordance with the balance sheet method, on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts. The main temporary differences arise from untaxed reserves, provisions for pensions and other pension benefits, property, plant and equipment and tax-loss carryforwards. Deferred tax is calculated by applying tax rates and laws that have been enacted or announced as of the balance sheet date and that are expected to apply when the concerned deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets relating to tax loss carryforwards or other future tax deductions are recognised to the extent it is likely that the deduction can be offset against a surplus in future taxation. Deferred tax liabilities relating to temporary differences attributable to investments in subsidiaries are not recognised in Bong's consolidated accounts since the Parent Company can in all cases control the time for reversal of the temporary differences and it is not considered likely that reversal will take place in the foreseeable future.

Derred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

For items recognised in the Income Statement, the associated tax effects are also recognised in the Income Statement. The tax effects of items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or equity, respectively.

Employee benefits

Pensions

There are both defined-contribution and defined-benefit pension plans in the Group. The biggest defined-benefit pension plans are in Sweden, Germany, France and Norway. In defined-contribution plans, the company pays fixed contributions to a separate legal entity and has no obligation to pay further contributions. The Group's profit is charged with costs as the benefits are vested. In defined benefit plans, benefits are paid to employees and former employees based on salary at retirement and number of years of service. The Group bears the risk for payment of the defined amount of pension benefit. In the event the plans are funded, assets have been set aside in pension funds or the like. The net of the calculated present value of the obligations and the fair value of the plan assets is recognised as a provision in the Balance Sheet. Regarding defined-benefit plans, the pension cost and the pension obligation are calculated using the "Projected Unit Credit Method" in a way that allocates the cost over the working life of the employee. The calculation is performed regularly by independent actuaries. The company's obligations are calculated as the present value of expected future payments using a discount rate equivalent to the interest rate on first-class corporate bonds or treasury bonds with a maturity equivalent to the obligations in question. The most important actuarial assumptions are shown in note 28, page 28.

Actuarial gains and losses may arise when the present value of the obligation and the fair value of plan assets are determined. The portion of the cumulative actuarial gains and losses at the end of last year that exceeds 10 per cent of either the present value of the obligations or the fair value of the plan assets, whichever is greater, is recognised in profit or loss, divided by the expected average remaining working lives of the employees. Past service costs are recognised directly in the Income Statement unless the changes in the pension plan are conditional on the employees' remaining in service for a stated period (the vesting period). In such cases the past service cost is allocated on a straight-line basis over the vesting period. Interest expense less expected return on plan assets is classified as a financial expense. Other cost items in the pension cost are charged to the operating profit.

If the pension cost and pension provision established for Swedish plans according to IAS 19 deviates from the equivalent amount according to FAR 4, a cost for special payroll tax on the difference is also recognised, in accordance with URA 43. The above-described accounting policy for defined-benefit pension plans is only applied to the consolidated accounts. The Parent Company accounts for defined-benefit pension plans in accordance with FAR's recommendation no. 4, Accounting of Pension Liabilities and Pension Costs.

Warrants

Bong has offered staff in Group Management an opportunity to purchase warrants. The warrant premium, which has been established using the Black-Scholes valuation model, is recognised as "Other contributed capital" in the Group and as "Share premium reserve" in the Parent Company. When new shares are subscribed for, the issue amount is allocated between "Share capital" and "Other contributed capital" (Group) or the "Share premium reserve" (Parent Company).

Termination benefits

Termination benefits are payable when an employee's employment has been terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for such benefits. The Group recognises severance pay when it is demonstrably obligated by a detailed formal plan to either terminate an employee without a possibility of withdrawal, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Bonus plans

The Group recognises a liability and a cost for bonuses when there is a legal obligation or an informal obligation due to previous practice.

Other employee benefits

Other employee benefits are recognised as costs as they become vested.

Provisions

Provisions are recognised when the Group has a legal or informal obligation as a result of previous events and it is probable that an outflow of resources will be required to settle the obligation, and where the amount can be measured reliably. In cases where the Group can expect that a provision will be repaid, for example under an insurance contract, the repayment shall be recognised as a separate asset, but only when repayment is as good as certain. Provisions are measured at the best estimate of the amount that is expected to be settled. Provisions for restructuring include costs for cancellation of lease agreements and severance benefits. No provisions are made for future operating losses.

Revenue recognition

Revenue recognition of goods takes place on delivery to the customer and after the customer's acceptance. The sales revenue includes the fair value of goods sold and is recognised less value added tax and discounts and after elimination of intra-Group sales.

Financial income and expenses

Financial income consists of interest income on invested funds, dividend revenue, gains on changes in value of financial assets measured at fair value through profit or loss, and gains on hedging instruments that are recognised in the Income Statement. Interest income on financial instruments is recognised according to the effective interest method (see below). Dividend income is recognised when the right to receive a dividend has been established. The gain or loss from sale of a financial instrument is recognised when the economic risks and rewards incidental to ownership have been transferred to the purchaser and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, the effect of dissolution of present value calculation of provisions, loss on change in value of financial assets measured at fair value through profit or loss, impairment of financial assets and losses on hedging instruments that are recognised in the Income Statement. All borrowing costs are recognised in the Income Statement by applying the effective interest method, regardless of how the borrowed funds have been used. Exchange gains and losses are offset. The effective interest rate is the rate that discounts the estimated future receipts and payments through the expected life of a financial instrument to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received by the contracting parties that are a part of the effective interest rate, transaction costs and all other premiums or discounts.

Leases

The Group leases certain non-current assets. A lease under which the risks and rewards incidental to ownership of a non-current asset are substantially transferred to the Group is classified as a finance lease. At the commencement of the lease period, finance leases are recognised in the Balance Sheet at the lower of the fair value of the asset and the present value of the minimum lease payments. Each lease payment is allocated between amortisation of liabilities and financial expenses in order to achieve a fixed interest rate for the recognised liability. Equivalent payment obligations, less financial expenses, are included in the Balance Sheet items "Other current liabilities" and "Other non-current liabilities". The interest element of the financial expenses is recognised in the Income Statement allocated over the lease period so that each lease period is charged with an amount that corresponds to a fixed interest rate for the liability recognised during the period in question. Non-current assets held under finance leases are depreciated over the useful life of the asset or the lease period, whichever is shorter.

Government grants

Government grants are recognised at fair value when there is reasonable certainty that the Group will meet all the conditions and the grants will be received. Government grants attributable to expected costs are deferred and recognised as deferred income. The grant is recognised as an expense in the period when the costs for which the grant provides compensation arise. Government grants for the procurement of property, plant and equipment reduce the carrying amount of the asset, or alternatively the grant is posted as deferred income which is recognised in the Income Statement allocated systematically and reasonably over the useful life of the asset.

Research and development

Expenditures for research work are recognised as expenses when they occur. Expenditures for development work are normally recognised as expenses when they occur. The development work that is done is of great importance for the Group, but has the character of maintenance development, which means that all criteria according to IAS 38 are not met, and particularly the requirement of future cash flow as a result of the investment.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. The recognised cash flow only includes transactions that entail cash receipts and cash payments.

Dividend

Dividend to the Parent Company's shareholders is recognised as a liability in the consolidated financial statements in the period when the dividend is determined by the Parent Company's shareholders.

Group's Notes

All values are in SEK thousand unless stated otherwise.

NOTE 1 – FINANCIAL RISK MANAGEMENT

Business operations are conducted on the basis of a finance policy adopted by the Board of Directors that provides rules and guidelines for how the different financial risks are to be managed. The finance policy identifies the three significant risks financing risk, market risk and credit risk, to which the Group is exposed in its day-to-day operations. The Group's financial policy focuses on minimising possible unfavourable effects on the Group's financial results.

The Group uses derivative instruments to hedge exposure to certain market risks. Financial risk management is the responsibility of a central finance function, which identifies and manages financial risks. The hedging instruments used are loans, currency and interest rate derivatives, according to the guidelines established in the finance policy.

Financing risk

Financing risk is the risk that the Group will have problems obtaining capital. The objective is that the Group should have access at all times to confirmed long-term loan facilities that cover the needs of its operations with adequate margin.

The current confirmed credit facility with Nordea and Swedbank was obtained in 2010 after a renewed contract prior to the acquisition of Hamelin's envelope division. The new agreement is valid for three years. At year-end the credit facility amounted to SEK 1,243 million (820), and granted but unutilised credits to SEK 319 million (308).
The Parent Company's external borrowings in the facility cover most of the subsidiaries' loan needs.

Market risk

Market risk refers to the currency risk that arises when future purchase and sales agreements or commercial invoices in foreign currencies affect a future operating profit (transaction exposure), or when the value of foreign investments is affected by currency rate changes (translation exposure), as well as the interest rate risk that can adversely affect the Group's net interest income when market rates change.

(a) Currency risk

(i) Transaction exposure

Transaction exposure exists in the Group's sales and purchases in different foreign currencies. These currency risks in foreign currencies include the risk of fluctuations in the value of trade receivables, trade payables and other current receivables and liabilities, as well as the risk of changes in expected and contracted future invoiced currency flows. During 2010, Bong's sales to countries outside of Sweden accounted for 88 (86) per cent of total sales. Total net revenues in foreign currencies in 2010 account for about 88 (86) per cent. Of the Group's total sales, approximately 51 (48) per cent are denominated in EUR, 16 (14) per cent in GBP, 12 (14) per cent in SEK, 7 (10) per cent in NOK and 14 (14) per cent in other currencies. There is also some local dealing in foreign currencies in the subsidiaries.

Bong has manufacturing on virtually all its main markets, which limits its transaction exposure.

At year-end 2010, the Group had the following currency hedges for expected payment flows in DKK and NOK for 2011. The derivatives used are forward exchange contracts. The contract amounts are shown below in nominal terms. The contracts are stated at fair value in the Balance Sheet, and the change in value is recognised in equity. When the contracts are realised, the cumulative change in value is posted in the Income Statement. The impact of the exchange rate derivatives on operating profit in 2010 amounted to SEK 2.2 million (0).

Outstanding hedges of currency flows, 31 december 2010

	Volume[1]	Rate[2]	Volume[3]	Rate[2]
Q 1, 2011	7.3	1.2722	3.4	1.1453
Q 2, 2011	6.1	1.2775	1.5	1.1490
Q 3, 2011	3.7	1.2347	1.4	1.1468
Q 4, 2011	4.0	1.2182	1.1	1.1383
Total	**21.1**	**1.2570**	**7.4**	**1.1452**
Closing rate, 31 December 2010		1.2080		1.1512
Unrealised result (SEK million) [4] recognised in hedging reserve, 31 December 2010		0.9 (0.3)		0 (–0.1)

[1] The volume is expressed in DKK millions.
[2] Average forward rate.
[3] The volume is expressed in NOK millions.
[3] Fair value recognised in the hedging reserve in equity on cash flow hedges when hedge accounting is applied. The item refers only to unrealised results on derivative instruments relating to future currency flows. There are no realised results in the hedging reserve.

Based on 2010 revenue and expenses in foreign currencies, a change of one percentage point in the Swedish Krona against other currencies, excluding currency hedges, leads to a change in operating profit on an annual basis of about SEK 1 million (1).

(ii) Translation exposure
Currency risks also exist in the translation of the assets, liabilities and profits of foreign subsidiaries to the Parent Company's functional currency, known as translation exposure.

Bong's policy is that net investments in the form of lending and equity in foreign convertible currencies should be hedged to a certain extent. The hedging level prescribed by the policy has been observed during the year. Hedges can be effected via forward exchange contracts or external borrowings of equivalent amounts. Both forward exchange contracts and external borrowing have been used as hedging instruments during the year.

Net assets hedged by forward exchange contracts at year-end, SEK millions

Currency	2011	2010
EUR	–14,9	75,8
GBP	–	57,4
DKK	20,3	–
Total	**5,4**	**133,2**

(b) Interest rate risk

Interest rate risk is the risk that the Group's net interest income will be adversely affected when market rates change. Bong is a net borrower, which means that the Group is exposed to a risk of a higher net interest expense when market rates rise.

Interest-bearing liabilities amounted at year-end to SEK 1,062 million (411), and the average fixed interest rate period on these liabilities was about 0.5 years (1.1) including interest rate swaps, and about 0.2 years (0.2) excluding interest rate swaps. Short-term investments and cash and cash equivalents amounted to SEK 149 million (74), and the fixed interest rate period on these assets is about 0 months (0).

Bong's borrowings via credit facilities provided by the banks normally have maturities of between one and three months. The fixed interest rate is then controlled by means of interest rate swaps.

As of the balance sheet date, the company had interest rate swaps with a nominal value of SEK 180 million (246), and they have been measured against equity. The net fair value of the swaps as of the balance sheet date was SEK –8 million (-13), consisting of assets of SEK 0 million (0) and liabilities of SEK –8 million (–13). Fair value of derivative instruments is recognised as other current liabilities.

The effective interest rate for the loan portfolio based on average borrowings for the year amounted to 2.96 per cent (2.1).

Given the same loan debt, short-term investments, cash and cash equivalents and fixed interest rate periods as at the end of the year, a change in the market rate of 100 base points (1 percentage point) would change the Group's net interest income on an annual basis by about SEK 8 million (2).

Credit risk

Bong provides credits to its customers as a natural part of its business activities. These credits add up to considerable amounts. Depending on national practice, the credit periods vary from country to country, but can in some countries be long, about 90 days, so that outstanding credits to individual companies can in some cases reach considerable amounts. If such companies should become insolvent or encounter other payment difficulties, Bong could incur severe financial loss. In order to reduce the risk of this happening, regular credit checks are made of the Group's customers and credit limits are set. Credit insurance is taken out above all on trade receivables in the Group's German, French and British companies.

NOTE 2 – REVENUE BY GEOGRAPHIC AREA

	2010	2009
Nordic and Baltic countries	755,213	771,088
Central Europe	776,071	668,628
France and Spain	276,936	70,649
United Kingdom	384,162	310,370
Russia/Eastern Europe	68,079	55,520
Other	65,665	38,462
Total	**2,326,126**	**1,914,717**

NOTE 3 – EXPENSES CLASSIFIED BY NATURE OF EXPENSE

	2010	2009
Depreciation, amortisation and impairment (note 6)	113,729	90,096
Costs for remuneration to employees (note 4)	630,948	543,282
Changes in inventories of finished goods and work in progress	2,127	–23,384
Raw materials	993,851	672,818
Transport costs	102,485	83,172
Other expenses	457,366	489,151
Total cost of goods sold, selling and administrative expenses	**2,300,506**	**1,855,135**

NOTE 4 – EMPLOYEES AND WAGES, SALARIES AND OTHER REMUNERATION

Average number of employees

	2010		2009	
	Number of employees	of whom men	Number of employees	of whom men
Sweden	275	163	282	170
Norway	96	57	100	61
Denmark	39	26	43	27
Finland	96	49	98	49
Germany	412	322	344	240
United Kingdom	169	124	120	85
the Netherlands	17	16	8	8
Belgium	90	50	90	50
Russia	89	54	81	48
Estonia	52	20	52	20
Luxembourg	20	6	–	–
France	142	82	–	–
Poland	37	23	–	–
Spain	4	0	–	–
Latvia	2	1	2	1
Total	**1,540**	**993**	**1,220**	**759**

Board of Directors and senior executives

	2010		2009	
	Total	of whom men	Total	of whom men
Board members	42	41	40	38
President and other senior executives	46	42	40	38

CONT'D NOTE 4

Salaries, remuneration, and social security contributions

	2010		2009	
	Salaries and remun.	Social contrib.	Salaries and remun.	Soc contrib.
Parent Company	11,884	6,809	13,993	6,744
Of wich pension costs	–	2,524	–	1,811
Subsidiaries	492,622	119,633	411,483	111,062
Of wich pension costs	–	37,770	–	30,188
Group	504,507	126,441	425,476	117,806
Of wich pension costs	–	40,294	–	31,999

Board's proposed 2010 guidelines for remuneration to senior executives

The Board of Directors of Bong AB (publ) proposes that the 2010 AGM adopt the following guidelines for remuneration to the President and other senior executives: By "senior executives" is meant here executives included in the management group, which currently consists of the company's President/CEO, Chief Financial Officer (CFO), Managing Director Bong Scandinavia and ProPac, Managing Director Bong Germany and Managing Director Bong UK.

Remuneration to the senior executives shall consist of fixed salary, variable remuneration, other benefits and pension. Total compensation must be at market rates and competitive to ensure that the Bong Group can attract and retain competent senior management.

The variable portion of the salary will have a predetermined ceiling, according to the basic principle that the variable salary portion can amount to no more than 70 per cent of the fixed annual salary. The variable portion is based on achievement of two or three of the following interim goals: 1) the Group's EBT, 2) the Group's cash flow, 3) earnings in the business unit, and 4) individual/qualitative goals. The basic principle is that the variable remuneration is paid in accordance with the agreed-upon weighting between the interim goals if the interim goal has been achieved. The variable portion is based on an earning period of one year. The goals for the senior executives are established by the Board of Directors.

Pension benefits shall be defined-benefit or defined-contribution, or a combination thereof. Variable remuneration is not pensionable. The Group Management is entitled to pensions under the ITP plan or the equivalent. The retirement age is 65 years. In addition to the ITP plan, some members of the Group Management are also entitled to an increased occupational pension premium of up to 30 per cent of their fixed salary.

The Group Management's employment contracts include provisions governing remuneration and termination of employment. According to these agreements, employment can ordinarily terminate at the request of the employee with a period of notice of 3–24 months and at the company's request with a period of notice of 6–24 months. In the event of termination by the company, the period of notice and the period during which severance pay is payable shall not together exceed 24 months.

Remuneration to the President and other senior executives is prepared by the Board of Directors' Compensation Committee and finalised by the Board based on the recommendation of the Compensation Committee. These guidelines apply to those persons who are included in the Group Management during the period the guidelines are in force.

The guidelines apply to the employment contracts entered into after the AGM's resolution, and to any changes in existing contracts. The Board of Directors is entitled to disregard the above guidelines if it finds that special reasons exist to justify this in a particular case.

Salaries and other remuneration broken down between Board members etc. and other employees

	2010		2009	
	Board and CEO	Other employees	Board CEO	Other employees
Total remuneration	38,451	466,056	25,230	400,156
of which bonuses etc	–	3,797	2,346	5,272

Terms of employment of senior executives

Chairman

The Chairman of the Board received a fee of SEK 300 thousand for 2010 (300). The amount comprises part of the total director's fee determined by the AGM. No other fee was paid. There is no agreement on pension, severance pay or other benefits.

Other board members

The total fee paid to other Board members for 2010 was SEK 619 thousand (600). Board members Alf Tönnesson, Christian W Jansson and Ulrika Eriksson received SEK 150 thousand each. Board member Patrik Holm received SEK 119 thousand and Board members Stéphane Hamelin and Eric Joan received SEK 25 thousand. No other fee was paid. There is no agreement on pension, severance pay or other benefits. No director's fee was paid to the President, nor to the employee representatives.

President and CEO

A fixed salary including remuneration for paid leave of SEK 3,861 thousand (2,550) was paid for 2010, plus car benefit valued at SEK 140 thousand (111). In addition to a fixed salary, a variable remuneration of no more than 70 per cent of the fixed salary may be paid, based on the Group's fulfilment of certain financial goals. Variable remuneration of SEK 0 thousand (1,394) was paid for 2010. Variable remuneration of SEK 1,012 thousand was paid for 2009. The retirement age is 65 years. A pension premium of 30 per cent of the base salary was paid. In 2010 a pension premium of SEK 130 thousand (44) was paid based on an agreement exchanging pension for salary. In the event of termination by the company, the President is entitled to salary and benefits for 24 months. In the event of termination by the President, the period of notice is 6 months.

Other senior executives in the management group

Total fixed salaries of SEK 8,206 thousand (7,696), plus car benefits valued at SEK 504 thousand (518), were paid to other senior executives in the management group, consisting of 5 persons, in 2010. In addition to a fixed salary, a variable remuneration of no more than 70 per cent of the fixed salary may be paid, based on the Group's fulfilment of certain financial goals. A variable remuneration of SEK 143 thousand (3,393) was paid for 2010.

The Extraordinary General Meeting, held 22 October 2010, resolved to implement long-term variable remuneration for Group Management. For more information please see the Directors' Report.

Pension benefits are payable for the Swedish executives under terms equivalent to those of the general pension plan. Pension benefits are

CONT'D. NOTE 4

payable for the foreign executives in accordance with individual agreements that give the company a cost not exceeding 10 per cent of the annual salary. A pension premium of SEK 1,183 thousand (1,015) was paid for 2010.

In the event of termination by the company, unchanged salary is payable for 6–24 months. In the event of termination by the employee, the period of notice is 3–24 months.

Warrants

In accordance with the decision of the General Meeting of Shareholders in 2005, warrants were sold to staff in the Group Management. The warrants entitle the holders to subscribe for a total of 300,000 new shares, of which 295,000 warrants have been purchased by senior executives. During the year, 102,000 (102,000) warrants expired. There are 0 remaining outstanding warrants.

Preparation and decision-making process

The Board of Directors has a Compensation Committee made up of the Chairman of the Board plus one other Board member. The committee deals with matters relating to terms of employment and remuneration to the President/CEO and other senior executives in the Group.

NOTE 5 – REMUNERATION TO AUDITORS

	2010	2009
PwC		
Auditing assignments	3,873	2,353
Audit-related activities	2,890	270
Tax services	27	–
Other services	3,366	1,025
Total	**10,156**	**3,648**

	2010	2009
Grant Thornton		
Auditing assignments	277	
Audit-related activities	–	
Tax services	–	
Other services	47	
Total	**324**	

	2010	2009
KPMG		
Auditing assignments	216	–
Audit-related activities	14	–
Tax services	143	–
Other services	298	–
Total	**671**	**–**

CONT'D. NOTE 5

	2010	2009
Mazar		
Auditing assignments	10	–
Audit-related activities	–	–
Tax services	24	–
Other services	105	–
Total	**139**	**–**

Auditors' fees amounting to SEK 10,340 thousand (3,648) were expensed and SEK 950 thousand (0) were recognised as issue expense directly in equity.

NOTE 6 – DEPRECIATION ACCORDING TO PLAN

	2010	2009
Broken down by non-current asset		
Other intangible assets	1,895	1,116
Land and buildings	33,900	9,608
Plant and machinery	66,125	68,044
Equipment, tools, fixtures, and fittings	11,809	11,328
Total	**113,729**	**90,096**
Broken down by function		
Cost of goods sold	102,676	80,115
Selling expenses	1,687	1,474
Administrative expenses	9,366	8,507
Total	**113,729**	**90,096**

NOTE 7 – OTHER OPERATING INCOME AND EXPENSES

Operating income	2010	2009
Exchange gains on operating receivables and liabilities	2,723	2,174
Capital gain on sale of non-current assets	21,033	13,765
Total	**23,756**	**15,939**

Operating expenses	2010	2009
Restructuring and transaction costs	–133,170	–4,730
Exchange losses on operating receivables and liabilities	–4,945	–4,004
Loss on sale of non-current assets	–97	–1,653
Total	**–138,212**	**–10,387**

NOTE 8 – OPERATING LEASES

The nominal value of future lease payments is broken down as follows on the balance sheet date:

	2010	2009
Fall due for payment within one year	32,562	41,685
Fall due for payment after one year but within five years	90,671	127,675
Fall due for payment after five years	51,714	67,256
Total	**174,947**	**236,616**
Lease payments for operating leases were paid in the following amounts:	35,123	42,653

CONT'D. NOTE 8

The Group's most important operating leases relate to rental of premises. The Group has operating leases for machinery, cars and office equipment on a smaller scale. There are no restrictions in the lease agreements.

NOTE 9 – FINANCIAL INCOME

	2010	2009
Interest income	2,998	3,049
Exchange gains on financial items	2,679	10,553
Total	**5,677**	**13,602**

NOTE 10 – FINANCIAL EXPENSES

	2010	2009
Interest portion in this year's pension costs	–4,301	–3,076
Interest expenses, other	–35,385	–29,754
Exchange losses on financial items	–1,880	–13,368
Other financial expenses	–5,076	–2,225
Total	**–46,642**	**–48,423**

NOTE 11 – TAX

	2010	2009
Current tax	–13,503	–12,272
Deferred tax	48,160	6,059
Total	**34,657**	**–6,213**

The tax on the Group's profit before tax differs from the theoretical amount that would result from application of the tax rates for the profits in the consolidated companies as follows.

	2010	2009
Profit/loss before tax	–131,950	30,464
Income tax calculated according to national tax rates for each country	35,627	–8,835
Tax:		
– adjustment of previous years' tax	373	3,173
– non-taxable revenue	2,096	3,753
– other non-deductible expenses	–9,880	–4,304
Balancing of recognition of previously unrecognised loss carryforwards	6,441	–
Tax according to Income Statement	**34,657**	**–6,213**

NOTE 12 – EXCHANGE GAINS/LOSSES – NET

	2010	2009
Exchange gains/losses are recognised in the income statement as follows		
Other operating income	2,723	2,174
Other operating expenses	–4,945	–4,004
Financial income	2,679	10,553
Financial expenses	–1,880	–13,368
Total	**–1,423**	**–4,645**

NOTE 13 – BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

In calculating basic earnings per share, profit attributable to the Parent Company's shareholders is divided by the weighted average number of ordinary shares outstanding during the period.

	2010	2009
Profit attributable to the Parent Company's shareholders	–99,049	21,618
Weighted average number of outstanding ordinary shares outstanding (thousands)	14,216	13,128
Basic earnings per share, SEK	**–6.97**	**1.65**

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has two categories of dilutive potential ordinary shares: convertible debt and warrants. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants.

	2010	2009
Profit attributable to the Parent Company's shareholders	–99,049	21,618
Weighted average number of ordinary shares outstanding (thousand)	14,216	13,128
– warrants (thousand)		102
– convertible bonds (thousand)	312	–
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand) [1]	14,528	13,230
Diluted earnings per share, SEK	**–6.97**	**1.63**

[1] The dilution effect is not taken into account when it leads to a better result.

NOTE 14 – GOODWILL

	31 Dec. 2010	31 Dec.2009
Opening costs	407,903	426,016
Purchases/acquisitions (note 35)	167,161	–
Reclassification	–	–1,485
Exchange rate differences	–42,622	–16,628
Closing costs	**532,442**	**407,903**

Impairment testing of goodwill

For impairment testing purposes, the Group is regarded as a cash-generating unit (CGU), since the whole Group's operation is regarded as a single segment.

The recoverable amount for a CGU is determined based on a calculation of value in use. That calculation uses cash flows projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated based on the assumption that the envelope market in Europe as a whole will not grow from today's level. The cash flows are based on previous years' outcomes and management's projections of the market trend. Management has established the budgeted cash flows based on previous years' results, planned and completed efficiency-improving measures and projections of the market trend.

In calculating the value in use, a discount rate of 9.9 per cent after tax (about 14 per cent before tax) has been assumed, along with a growth rate of 1.5–2 per cent in addition to the projected inflation rate. A discount rate of 10.1 per cent after tax and the same growth rate as this year's impairment test were used in 2009.

The discount rate used is given after tax and reflects the market interest rates, risks and tax rates that apply to the different units. The average growth rate used is based on industry forecasts. Positive growth is expected above all in the packaging sector and in Eastern Europe. A growth rate of 1-1.5 per cent has been used to extrapolate cash flows beyond the budget period.

Impairment testing shows that there is no impairment of goodwill values. For a sensitivity analysis relating to the need for impairment of goodwill, please see note 36.

NOTE 15 – OTHER INTANGIBLE ASSETS

	31 Dec. 2010	31 Dec.2009
Opening costs	25,346	19,577
Increase through business combination	6,947	573
Purchase	7,793	–
Sale/retirement	–1,173	–97
Reclassifications	18,121	6,455
Exchange rate differences	–7,640	–1,162
Closing costs	**49,394**	**25,346**
Opening accumulated amortisation	–17,023	–16,891
Sales/retirements	1,135	75
Exchange rate differences	3,700	909
Amortisation for the year	–1,895	–1,116
Closing accumulated amortisation	**–14,083**	**–17,023**
Closing residual value according to plan	**35,311**	**8,323**

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31 Dec. 2010	31 Dec.2009
Opening costs	306,727	338,279
Increase through business combination	167,896	–
Purchase	1,260	8,502
Sales/retirements	–29,668	–35,572
Reclassifications	678	19,331
Exchange rate differences	–58,611	–23,813
Closing costs	**388,282**	**306,727**
Opening accumulated depreciation and impairment losses	–78,722	–106,889
Sales/retirements	16,497	25,110
Exchange rate differences	26,716	12,665
Amortisation for the year	–33,900	–9,608
Closing accumulated amortisation	**–69,409**	**–78,722**
Closing residual value according to plan	**318,873**	**228,005**
Of which land	45,035	38,271

Plant and machinery	31 Dec. 2010	31 Dec.2009
Opening costs	1,234,275	1,270,520
Increase through business combination	122,448	–
Purchase	15,480	20,849
Sales/retirements	–36,685	–44,081
Reclassifications	2,540	12,396
Exchange rate differences	–131,988	–25,409
Closing costs	**1,206,070**	**1,234,275**
Opening accumulated amortisation	–952,498	–925,252
Sales/retirements	33,077	38,909
Exchange rate differences	107,491	15,852
Reclassifications	–265	–13,963
Amortisation for the year	–66,125	–68,044
Closing accumulated amortisation	**–878,320**	**–952,498**
Closing residual value according to plan	**327,750**	**281,777**

Equipment, tools, fixtures, and fittings	31 Dec. 2010	31 Dec.2009
Opening costs	254,643	240,157
Increase through business combination	14,453	–
Purchase	12,197	4,709
Sales/retirements	–4,134	–1,366
Reclassifications	1,673	17,714
Exchange rate differences	–25,290	–6,571
Closing costs	**253,542**	**254,643**
Opening accumulated amortisation	–222,342	–208,833
Sales/retirements	4,354	963
Exchange rate differences	21,812	5,349
Reclassifications	–79	–8,493
Amortisation for the year	–11,809	–11,328
Closing accumulated amortisation	**–208,064**	**–222,342**
Closing residual value according to plan	**45,478**	**32,301**

NOTE 17 – FINANCE LEASES IN THE GROUP

	31 Dec. 2010	31 Dec.2009
Opening costs	3,590	0
Increase through business combination	3,779	3,716
Exchange rate differences	–236	–126
Closing costs	**7,133**	**3,590**
Opening accumulated amortisation	–277	0
Exchange rate differences	30	10
Amortisation for the year	–153	–287
Closing accumulated amortisation	**–400**	**–277**
Closing residual value according to plan	**6,733**	**3,313**

	Nominal values 2010-12-31	Present values 2010-12-31
Future minimum lease payments fall due as follows:		
Within one year	4,083	3,920
After one year but within five years	982	873
After five years	0	0
Total	**5,065**	**4,793**

	Nominal values 2010-12-31	Present values 2010-12-31
Future minimum lease payments fall due as follows:		
Within one year	1,682	1,615
After one year but within five years	1,672	1,538
After five years	0	0
Total	**3,354**	**3,153**

NOTE 18 – CONSTRUCTION IN PROGRESS AND ADVANCE PAYMENTS RELATING TO PROPERTY, PLANT AND EQUIPMENT

	31 Dec. 2010	31 Dec.2009
Opening costs	8,307	34,801
Increase through business combination	1,534	–
Accrued expenses	28,612	9,472
Reclassifications	–22,668	–32,430
Exchange rate differences	–521	–3,536
Closing balance	**15,264**	**8,307**

NOTE 19 – INTERESTS IN ASSOCIATED COMPANIES

	2010	2009
Opening balance	12,476	6,290
Acquisitions	1,511	3,187
Share in profits	–2,149	151
Shareholders' contributions paid	–	2,000
Exchange rate differences	–3,162	848
Closing balance	**8,676**	**12,476**

CONT'D. NOTE 19

Company	Corporate ID no.:	Domicile	Invested capital	Book value
Nova Envelopes Ltd	2889578	Leighton Buzzard, UK	GBP 50	2,538
DMQvert AB	556261-9980	Lerum, Sweden	SEK 200 thousand	3,380
Packaging First Ltd	3838039	Blackmore, UK	GBP 50	2,758
Image Envelopes Ltd	3029029	Milton Keynes, UK	GBP 161 thousand	0
Total				**8,676**

The Group's interests in associated companies up to 31 December 2010 were as follows:

	Assets	Liabilities	Revenue	Profit	Tax	Stake, %
Nova Envelopes Ltd	4,153	2,991	9,784	–56	0	50
DMQvert AB	7,372	5,027	13,912	326	–212	50
Packaging First Ltd	2,403	4,111	11,815	390	–105	45
Image Envelopes Ltd	11,318	9,405	21,126	–2,492	0	50

NOTE 20 – INTERESTS IN OTHER COMPANIES 31 DECEMBER 2010

Company	Corporate ID no.:	Domicile	Invested capital	Book value
Bong Fastigheter KB	969655-5763	Stockholm, Sweden	SEK 1,000 thousand	1,000
Total				**1,000**

NOTE 21 – DEFERRED TAX

Deferred tax assets and liabilities are offset when a legal right to do so exists for the tax assets and liabilities in question and when the deferred taxes are payable to the same tax authority. The offset amounts are as follows:

Deferred tax assets	31 Dec. 2010	31 Dec.2009
– to be utilised after more than 12 months	73,677	64,566
– to be utilised within 12 months	25,200	798
	98,877	**65,364**

Deferred tax liabilities		
– to be utilised after more than 12 months	–20,698	–18,376
– to be utilised within 12 months	–1,000	–1,000
	–21,698	**–19,376**
Net tax asset	77,179	45,988

The gross change with regard to deferred taxes is as follows:		
At start of year	45,988	56,275
Exchange rate differences	–4,330	–5,599
Acquisition of subsidiaries	–12,639	–3,086
Recognised in the Income Statement	48,160	6,059
Tax relating to components of other comprehensive income	0	–7,661
At year-end	**77,179**	**45,988**

CONT'D. NOTE 21

Deferred tax per temporary difference amounts to:	31 Dec. 2010	31 Dec.2009
Deferred tax asset		
Loss carryforward	132,447	105,817
Intangible assets	–519	–1,713
Property, plant and equipment	–32,677	–35,643
Pensions	200	–
Other temporary differences	–574	–3 097
Total	**98,877**	**65,364**

Deffered tax liabilities		
Loss carryforward	–8,031	–10,061
Intangible assets	2,876	3,623
Property, plant and equipment	13,466	17,617
Pensions	–1,132	–1,856
Other temporary differences	14,519	10,053
Total	**21,698**	**19,376**

Deferred tax assets are recognised for tax-loss carryforwards to the extent it is likely they can be utilised to offset future taxable profits.

The Group's loss carryforwards mainly relate to the operation in Germany. In recent years a number of steps have been taken to reduce costs and streamline the operation, as a result of which the operation is showing profits. The chances of being able to utilise remaining loss carryforwards are deemed good.

NOTE 22 – OTHER NON-CURRENT RECEIVABLES

	31 Dec. 2010	31 Dec.2009
Opening balance	16,388	20,251
Change during the year	–13,286	–3,863
Closing balance	**3,102**	**16,388**

Fair value agrees with book value.

NOTE 23 – INVENTORY

The expenditure for the inventory that was recognised is included in the item "Cost of goods sold" and amounted to SEK 995,988 thousand (649,434). Of the inventory value, SEK 153 thousand has been measured at net realisable value (66). The inventory was depreciated during the year by SEK 1,340 thousand (1,967).

NOTE 24 – TRADE RECEIVABLES AND OTHER RECEIVABLES

	31 Dec. 2010	31 Dec.2009
Trade receivables	597,295	248,699
Less: provision for impairment of receivables	–16,111	–5,298
Trade receivables – net	581,184	243,401

Fair value agrees with book value.

Stated amounts, per currency for the Group's trade receivables are as follows:	31 Dec. 2010	31 Dec.2009
SEK	43,205	38,696
GBP	166,359	48,911
EUR	327,823	153,609
Other currencies	59,908	7,483
Total	**597,295**	**248,699**

Changes in the reserve for doubtful trade receivables are as follows:	31 Dec. 2010	31 Dec.2009
At 1 January	5,298	7,996
Acquisition of subsidiary	11,422	–
Provision for doubtful debts	632	1,196
Receivables that have been written off during the year as uncollectible (–)	–883	–2,217
Reversal of unutilised amounts	–358	–1,677
At 31 December	**16,111**	**5,298**

The credit quality of trade receivables that have neither fallen due for payment nor are impaired can be assessed by reference to an external credit rating (if available) or to the counterparty's payment history:

Counterparties with an external credit rating	31 Dec. 2010	31 Dec.2009
AAA	16,984	21,199
AA	2,392	3,784
A	362	551
B	225	183
BB	–	–
BBB	1,069	1,177

CONT'D. NOTE 24

Counterparties without an external credit rating	31 Dec. 2010	31 Dec.2009
Group 1 new customers	4,315	3,802
Group 2 existing customers without previous defaults	553,322	210,159
Group 3 existing customers with some previous non-payments where all non-payments have been fully recovered	2,515	2,546
Total trade receivables	**581,184**	**243,401**

At 31 December 2010 trade receivables totalling SEK 41,986 thousand (7,673) were overdue but were not considered to be impaired. The overdue receivables relate to a number of customers who have not previously had any difficulties paying.

Below is an age analysis of these trade receivables:	31 Dec. 2010	31 Dec.2009
Less than 3 months	33,536	5,319
3 to 6 months	5,534	280
More than 6 months	2,916	2,074
Total	**41,986**	**7,673**

NOTE 25 – OTHER CURRENT RECEIVABLES AND LIABILITIES

Other current receivables	31 Dec. 2010	31 Dec.2009
Currency and interest rate derivatives	1,078	833
Other current receivables	14,962	29,080
Total	**16,040**	**29,913**

Other current liabilities	31 Dec. 2010	31 Dec.2009
Currency and interest rate derivatives	9,008	16,722
Other current liabilities	72,812	5,854
Total	**81,820**	**22,576**

NOTE 26 – BORROWINGS

Long-term	31 Dec. 2010	31 Dec.2009
Bank loans	769,711	458,446
Convertible loan	36,016	–
Shareholder loan	67,529	–
Total	**873,256**	**458,446**
Short-term		
Bank credit lines	81,143	27,577
Bank loans	46,029	50,841
Shareholder loan, final settlement	26,332	–
Total	**153,504**	**78,418**
Total borrowings	**1,026,760**	**536,864**

Maturity dates for long-term borrowings are as follows:		
Between 1 and 2 years	85,000	80,462
Between 2 and 5 years	340,835	60,000
More than 5 years	447,421	317,984
	873,256	**458,446**

CONT'D. NOTE 26

The effective interest rate on the balance sheet date was as follows:	31 Dec. 2010	31 Dec.2009
Bank credit lines	4.29%	1.66 %
Other borrowings	3.51%	3.32 %
Other non-current liabilities	0.00%	0.00 %

The interest rate level is dependent on the current market rate, loan currency, fixed interest rate period and financial key ratios agreed with the Group's main banks. The key ratios relate primarily to the Group's net debt/EBITDA ratio.

Recognised amounts, per currency, are as follows:	31 Dec. 2010	31 Dec.2009
SEK	173,864	109,899
EUR	775,028	359,223
GBP	72,872	67,742
Other currencies	4,996	–
	1,026,760	**536,864**

The Group has the following unutilised credit facilities:	31 Dec. 2010	31 Dec.2009
Variable interest rate:		
– expires within one year	–	–
– expires after more than one year	319,413	307,556
Fixed interest rate:		
– expires within one year	–	–

NOTE 27 – OTHER PROVISIONS

Restructuring	2010	2009
At 1 January 2010	–	
Recognised in the income statement:		
– additional provisions	123,583	–
Utilised during the year	–23,357	–
Exchange rate difference	–385	–
At 31 December 2010	**99,841**	

	2010	2009
Non-current portion	30,000	–
Current portion	69,841	–
	99,841	**–**

In connection with the acquisition of Hamelin's envelope division, two structural changes began during the fourth quarter - one on the European continent to make it possible to move some production volumes to France and the UK, respectively, and to integrate Hamelin's operations into Bong's. The project will continue in 2011. The other project that was initiated in the UK involves integration between two of Hamelin's operations and Bong. This project, which was regulated in the agreement between Bong and Hamelin, involves a significant shift of operations from a Hamelin division outside the envelope business to Bong, as well as the spin-off of British John Dickinson Ltd. from Hamelin's administrative organisation.

NOTE 28 – PENSION OBLIGATIONS

The Group has defined-benefit pension plans in a number of countries. The biggest defined-benefit pension plans are in Sweden, Germany, Norway, France and Belgium, where they cover virtually all salaried employees and certain other personnel. The pension plans provide benefits based on the average remuneration and length of employment of the employees at or near retirement.

	31 Dec. 2010	31 Dec.2009
Defined-benefit pension plans	159,100	126,414
Payroll tax and similar taxes	–1,242	–334
Net liability in Balance Sheet	**157,858**	**126,080**

The amounts recognised in the Consolidated Balance Sheet have been calculated as follows:	31 Dec. 2010	31 Dec.2009
Present value of funded obligations	83,745	80,271
Fair value of plan assets	–52,702	–49,568
Present value of unfunded obligations	154,819	127,376
Unrecognised actuarial gains (+), and losses (–)	–28,005	–31,999
Net liability, defined benefit pension plans	**157,858**	**126,080**

The amounts recognised in the Consolidated Income Statement are as follows:	31 Dec. 2010	31 Dec.2009
Service costs during current year	5,210	4,752
Interest expense	9,114	9,304
Expected return on plan assets	–2,414	–2,779
Losses (+) or gains (–) on curtailments and settlements	–695	1,308
Total costs for defined benefit plans	**11,215**	**12,585**

The total pension costs recognised in the Consolidated Income Statement are as follows:	31 Dec. 2010	31 Dec.2009
Total costs for defined-benefit plans	11,215	12,585
Total costs for defined-contribution plans	24,038	16,474
Cost for special payroll tax and yield tax	5,041	2,940
Total pension cost	**40,294**	**31,999**

The costs are allocated in the Consolidated Income Statement among the following items:	31 Dec. 2010	31 Dec.2009
Cost of goods sold	25,089	17,202
Selling expenses	4,935	3,645
Administrative expenses	6,362	4,627
Financial expenses	3,908	6,525
Total pension cost	**40,294**	**31,999**

CONT'D. NOTE 28

Specification of changes in the net liability recognised in the Consolidated Balance Sheet:	31 Dec. 2010	31 Dec.2009
Net liability at beginning of the year	126,080	134,472
Net expenses recognised in the income statement	11,215	12,585
Benefit payments paid	–8,618	–9,521
Employer contributions to funded plans	–4,110	–2,203
Net liabilities assumed in business combinations (note 35)	44,454	
Exchange rate difference on foreign plans	–11,163	–9,253
Net liability at year-end	**157,858**	**126,080**

Significant actuarial assumptions on the balance sheet date: (expressed as weighted averages)		
Discount rate	4.7%	4.7 %
Expected return on plan assets	5.3%	4.9 %
Actual return on plan assets	3.5%	3.4 %
Future annual salary increases	3.6%	2.5 %
Future annual pension increases	2.4%	2.5 %
Employee turnover rate	3.5%	3.5 %

Pension insurance in Alecta

Obligations for old-age pension and family pension for salaried employees in Sweden are secured by insurance in Alecta. According to a statement by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, URA 3, this is a multi-employer defined-benefit plan. For financial year 2010, the Group did not have access to information that makes it possible to account for this plan as a defined-benefit plan. The ITP pension plan that is secured via insurance in Alecta is therefore accounted for as a defined-benefit plan.

Pension contributions during the year for pension insurance in Alecta.

CONT'D. NOTE 28

amount to SEK 889 thousand (889). Alecta's surplus can be distributed to the policyholders and/or to the insured. At year-end 2010, Alecta's surplus in the form of the collective funding ratio amounted to 146 per cent (141). The collective funding ratio is the market value of Alecta's assets as a percentage of their insurance obligations calculated according to Alecta's actuarial assumptions, which do not agree with IAS 19.

NOTE 29 – ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec. 2010	31 Dec.2009
Pay-related accrued expenses	129,329	72,379
Other accrued expenses	89,302	60,002
Total	**218,631**	**132,381**

NOTE 30 – PLEDGED ASSETS

	31 Dec. 2010	31 Dec.2009
Relating to pension obligations		
Floating charges	–	–
Relating to liabilities to credit institutions		
Shares in subsidiaries	498,638	402,567
Floating charges	17,342	112,927
Property mortgages	8,932	10,177
Current assets	34,192	–
Total	**559,104**	**525,671**

NOTE 31 – CONTINGENT LIABILITIES

	31 Dec. 2010	31 Dec.2009
Liability FPG	1,037	1,003
Other contingent liabilities	3,268	1,229
Total	**4,305**	**2,232**

NOTE 32 – RESERVES

	Hedging reserve	Translation reserve	Revaluation of assets	Total reserves
Opening balance 1 January 2009	–9,859	87,622	1,935	79,698
Revaluation reserve on acquisition of shares in subsidiaries			3,426	3,426
Cash flow hedges	–2,328			–2,328
Hedging of net investments		13,122		13,122
Exchange rate difference		–46,887		–46,887
Tax effect	612	–8,273		–7,661
Closing balance 31 December 2009	**–11,575**	**45,584**	**5,361**	**39,370**
Ingående balans 1 januari 2010	–11,575	45,584	5,361	39,370
Cash flow hedges	2,046			2,046
Hedging of net investments	57,201		57,201	
Exchange rate difference		–129,016		–129,016
Tax effect	–538	–12,096		–12,634
Closing balance 31 December 2010	**–10,067**	**–38,327**	**5,361**	**–43,033**

NOTE 33 – SHARE CAPITAL

Shares

The number of shares at year-end 2010 was 17,480,995 (2009: 13,128,227) with a quotient value of SEK 10 per share (2009: SEK 10 per share). All issued shares are fully paid.
The Extraordinary General Meeting, held 22 October 2010, resolved on the issuance of convertible bond business loans. On conversion to shares the number of shares will increase by 1,246,860 and share capital by SEK 12,468,600.

Warrants

The warrant programme offered since 2005 is completed.

NOTE 34 – OTHER ITEMS NOT AFFECTING LIQUIDITY IN THE CONSOLIDATED CASH FLOW STATEMENTS

	2010	2009
Gains on disposal of property, plant and equipment	–15,551	–5,989
Change in provisions	95,178	–12,149
Exchange rate differences and other	–17,812	–14,968
Total	**61,815**	**–33,106**

Change in provisions mainly relates to provisions for restructuring costs in connection with the acquisition of Hamelin's envelope division.

NOTE 35 – BUSINESS COMBINATIONS

Company/operation	Transaction type	Ownership	Consolidation method	Transaction date
Tycon S.A.	Share acquisition	100%	Acquisition method	1 March 2010
Curtis 1000 France Sarl.	Share acquisition	100%	Acquisition method	1 March 2010
Cadix SAS.	Share acquisition	100%	Acquisition method	1 Oct. 2010
Bong Caly Swiat Kopert Sp.z.o.o.	Share acquisition	100%	Acquisition method	1 Dec. 2010
Tabergs kuvertverksamhet	Net asset acquisition		Acquisition method	1 Dec. 2010

Cadix SAS., France	
The purchase price consists of the following components:	
Cash and cash equivalents	341,153
New issue of 4,352,768 shares	130,148
New issue of convertible debentures 2010/2015:1-10	37,126
Assumed liabilities from the seller	165,196
Total purchase consideration	**673,623**
Acquisition-related costs (included in other expenses in the Consolidated Income Statement for financial year 2010)	19,323
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	72,887
Property, plant and equipment	293,563
Intangible assets	6,907
Inventories	175,858
Trade receivables and other receivables	346,505
Trade payables and other payables	–118,476
Pension obligations	–44,256
Borrowings	–189,295
Deferred tax liabilities	–12,653
Total identified net assets	531,040
Goodwill	142,583
	673,623

Through the acquisition Bong will become the leading European specialty packaging and envelope company. The acquisition provides a stronger platform for accelerated product development and growth, greater geographical coverage and wider product range. Significant synergies can be achieved through greater efficiency and competitiveness. To a large extent, the two companies' sales organisations, market presence and production resources complement each other well.

The fair value of the 4,352,768 shares that were issued as part of the purchase consideration paid for Cadix SAS (SEK 130,148 thousand) is based on the share price published on 22 October 2010. The fair value of the acquired net assets belonging to the Cadix SAS Group is provisionally awaiting final assessment of these assets.

Sales from the business combinations acquired in 2010 that are included in the consolidated income statement total SEK 422 million since the dates of acquisition. However, this contribution to earnings cannot be separated due to restructuring measures.

Other acquisitions	
The purchase price consists of the following components:	
Cash and cash equivalents	8,963
Total purchase consideration	**8,963**
Acquisition-related costs (included in other expenses in the consolidated income statement for financial year 2010)	460
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	3,386
Property, plant and equipment	12,768
Intangible assets	40
Inventories	11,558
Trade receivables and other receivables	11,969
Trade payables and other payables	–26,635
Pension obligations	–198
Borrowings	–28,287
Deferred tax liabilities	–215
	0
Total identified net assets	–12,115
Goodwill	24,578
	8,963

NOTE 36 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates and judgements are evaluated continuously and are based on historical experience and other factors, including expectations of future events that are considered reasonable under prevailing circumstances.

Pension benefits

The present value of the pension obligations is dependent on a number of factors that are established on an actuarial basis based on a number of assumptions. The assumptions used in establishing the net cost (income) for pensions includes the long-term rate of return on the plan assets in question and the discount rate. Every change in these assumptions will affect the carrying amount of the pension obligations.

The assumption of expected return on the plan assets is determined in a uniform manner and takes into account historical long-term return, the distribution of the assets and estimates of future long-term return.

CONT'D. NOT 36

The Group determines a suitable discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future payments expected to be required to settle the pension obligations. In determining a suitable discount rate, the Group takes into account the interest rates on first-class corporate bonds or treasury bonds denominated in the currency in which the payments will be made and with maturities equivalent to the estimates for the pension obligations in question.

Other significant assumptions regarding pension obligations are based on prevailing market terms. Further information is furnished in note 28.

If the actual expected return on the plan assets were to deviate by 1 per cent from management's estimates, the carrying amount of the pension obligations would be SEK 0.5 million higher or SEK 0.5 million lower.

If the discount rate deviated by one percentage point from management's estimates, the carrying amount of the pension obligations would be estimated at about SEK 32.5 million lower with 1 percentage point higher than the discount rate and about SEK 52.0 million higher with a lower discount rate.

The portion of the actuarial gains and losses that exceeds 10 per cent of either the present value of the obligations or the fair value of the plan assets, whichever is greater, is recognised in profit or loss, divided by the expected average remaining working lives of the employees. An adjustment of the discount rate with 1 percentage point would thus entail an increased cost of SEK 4.4 million or reduced cost of SEK 1.8 million to be recognised in profit or loss in 2011.

Impairment testing of goodwill

The Group subjects goodwill to impairment testing every year, in accordance with the accounting principle described among the accounting policies above.

The recoverable amount has been determined by calculation of the value in use. Certain estimates must be made for these calculations.

Management has determined the budgeted operating margin based on previous earnings and their expectations of the future market trend. A growth rate of 1-1.5 per cent has been used to extrapolate cash flows beyond the budget period. This growth rate is judged to be a conservative estimate. Furthermore, an average discount rate after tax of 10 per cent has been used, as evident from note 14.

A sensitivity analysis has been performed for the Group as a cash-generating unit. The results of the analysis are summarised below.

- If the estimated growth after the budget period had been half of the assumed amount in management's assessment, the total recoverable amount would be 5 per cent lower.

CONT'D. NOT 36

- If the estimated growth rate for extrapolating cash flows beyond the budget period had been 1.5 per cent lower than the assumption of 1.5 per cent, the total recoverable amount would be 9 per cent lower.
- If the estimated weighted capital cost applied to discounted cash flows for the Group had been 10 per cent higher than the assumption of about 10 per cent, the total recoverable amount would be 10 per cent lower.

These calculations are hypothetical and should not be regarded as an indication that these factors are more or less likely to change. The sensitivity analysis should therefore be interpreted with caution.

NOTE 37 – HEDGE ACCOUNTING

The Parent Company's borrowings in EUR and GBP are identified as hedging of net investments in subsidiaries in Germany, Ireland, Belgium, France and the UK. The fair value of the borrowings at 31 December 2010 was SEK 649,488 thousand (403,154). The exchange difference amounting to SEK 57,201 thousand (–13,122) on translation of the borrowings to SEK on the balance sheet date, is recognised in 'Reserves' in equity.

NOTE 38 – DIVIDEND

A dividend for 2010 of SEK 1 per share, totalling SEK 17,481 thousand, will be proposed at the AGM on 12 May 2011. A dividend for 2009 of SEK 1 per share, totalling SEK 13,128 thousand, was approved at the AGM on 18 May 2010.

NOTE 39 – INFORMATION ABOUT BONG AB

Bong AB is a public limited liability company domiciled in Kristianstad at Uddevägen 3, Box 516, 291 25 Kristianstad, Sweden. The address of the company's headquarters is Hans Michelsensgatan 9, 211 20 Malmö, Sweden. Bong AB is listed on NASDAQ OMX Stockholm (Small Cap).

NOTE 40 – RELATED PARTY TRANSACTIONS

Transactions with associated companies	2010	2009
Sales during the year	119 493	7 243
Purchases during the year	4 701	1 630
Current receivables balance sheet date	32 921	931

Transactions with subsidiary to Holdham S.A are counted as related-party transactions since Holdham S.A. is the largest shareholder in Bong AB	2010	2009
Sales during the year	59 239	–
Purchases during the year	46 607	–
Current receivables balance sheet date	49 741	–

NOT 41– NOTABLE EVENTS AFTER THE END OF THE FINANCIAL YEAR

Final payment to Hamelin

The final payment of SEK 26 million of the purchase sum relating to the acquisition of Hamelin's envelope business was made in January 2011.

Acquisition of Egå Offset

On 3 January 2011 Bong acquired the Danish envelope and printing company Egå Offsets operation in Århus. Through the acquisition Bong acquires an envelope printing facility and becomes a major supplier of printed envelopes in all of Denmark through its Danish subsidiary Bong Bjørnbak A/S.

Egå Offset, a family business specialising in printing and sales of envelopes, is an important regional player in the Jutland region. The unit has annual sales of around SEK 30 million and 17 employees. The acquisition is expected to make a positive contribution to Bong's earnings starting in the first quarter of 2011.

NOTE 42 – ADOPTION OF NEW ACCOUNTING POLICIES

(a) New and revised standards applied by the Group

The Group has applied the following new and revised IFRSs from 1 January 2010:

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to prescribe the use of the acquisition method for business combinations, but with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. A non-controlling interest (NCI) in the acquiree can for each acquisition be measured at either fair value or the NCI's proportionate share of the net assets of the acquiree. All acquisition-related costs are expensed.

IAS 27 (revised) requires that the effects of all transactions with non-controlling interests be recognised in equity as long as they do not entail any change in control and these transactions no longer give rise to goodwill or gains and losses. The standard also states that when a parent loses control, any retained investment shall be remeasured at fair value and a gain or loss be recognised in profit or loss.

(b) New and revised standards, as well as interpretations applied for the first time for the financial year beginning 1 January 2010 but that currently are not relevant for the Group

IFRIC 17, 'Distributions of Non-cash Assets to Owners' (applies to financial years beginning on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting of agreements under which a company distributes non-cash assets to its owners. An amendment has also been made in IFRS 5, requiring that the assets be classified as held for distribution only if they are available for distribution in their present condition and distribution is highly probable.

IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water), or to do both. In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

IFRIC 9 and IAS 39 (amendment), "Embedded derivatives" (applies to financial years that end 30 June 2009 or later). This amendment requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation' (applies to financial years beginning on or after 1 July 2009). This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

IAS 38 (amendment), 'Intangible assets', (applies to financial years beginning on or after 1 January 2010). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

IAS 1 (amendment), 'Presentation of Financial Statements'. The amendment clarifies that the potential settlement of a liability by an issue of shares is not relevant to its classification as current or non-current. By a change in the definition of a current liability, the amendment permits classification of a liability as non-current (provided that the company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the financial year by a transfer of cash or cash equivalent) even though the counterparty can demand settlement by shares at any time.

IAS 36 'Impairment of Assets' (applies to financial years beginning on or after 1 January 2010).

Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated to test for impairment is an operating segment according to the definition in paragraph 5 of IFRS 8 'Operating Segments' (i.e. before aggregation of segments with similar economic characteristics).

IFRS 2 (amendment), "Group cash-settled and share based payment transactions", applies to financial years beginning on or after 1 January 2010. The amendment entails that IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' are incorporated in the standard. The previous guidance in IFRIC 11 is also supplemented with regard to classification of group transactions, which is not treated in the interpretation.

IFRS 5 (amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted by the Group.

The assessment of the Group and the Parent Company of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess the full impact of IFRS 9.

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011.

'Classification of rights issues' (amendment to IAS 32), issued in October 2009 (applies to annual periods beginning on or after 1 February 2010). Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (applies for financial years beginning on or after 1 July 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011, but it is not expected to have any impact on the Group or the Parent Company's financial statements.

IFRIC 14 (amendment) 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group will apply these amendments for the financial reporting period commencing on 1 January 2011.

Income statements for Parent Company

INCOME STATEMENT

SEK THOUSAND	Note	2010	2009
Revenue		27,225	0
Gross profit		27,225	0
Administrative expenses	2–5	–61,327	–37,535
Other operating income	6	5,591	2,577
Operating profit/loss	7	**–28,511**	**–34,958**
Profit from interests in subsidiaries	8	29,645	68,079
Other interest income and similar line items	9	84,453	35,074
Interest expense and similar line items	10	–61,327	–48,107
Total financial income and expenses		**52,771**	**55,046**
Result before tax		**24,260**	**20,088**
Appropriations		0	897
Income tax	11	931	875
NET RESULT FOR THE YEAR		**25,191**	**21,860**

STATEMENTS OF COMPREHENSIVE INCOME

SEK THOUSAND	Note	2010	2009
Net result for the year		25,191	21,860
Other comprehensive income			
Cash flow hedges		7,039	725
Income tax relating to components of other comprehensive income		–1,851	–191
Other comprehensive income after tax		5,188	534
TOTAL COMPREHENSIVE INCOME		**30,379**	**22,394**

Balance sheet for Parent Company

SEK THOUSAND	Note	2010-12-31	2009-12-31
ASSETS			
Non-current assets			
Intangible assets			
Capitalised development expenditure		18,160	0
Total	12	**18,160**	**0**
Tangible assets			
Equipment, tools, fixtures, and fittings		2,090	2,542
Investments in progress		1,164	2,582
Total	13	**3,254**	**5,124**
Financial assets			
Interests in subsidiaries	14	1,715,643	1,055,694
Interests in other companies	15	1,000	1,000
Deferred tax assets	16	17,506	16,575
Other non-current receivables		1,385	0
Total		**1,735,534**	**1,073,269**
Total non-current assets		**1,756,948**	**1,078,393**
Current assets			
Current receivables			
Receivables from subsidiaries		158,101	245,241
Current tax asset		680	680
Other current receivables	18	4,229	2,320
Deferred expenses and accrued income	19	15,170	7,686
Total		**178,180**	**255,927**
Cash and cash equivalents		**15,798**	**6,098**
Total current assets		**193,978**	**262,025**
TOTAL ASSETS		**1,950,926**	**1,340,418**

SEK THOUSAND	Note	2010-12-31	2009-12-31
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	22	174,810	131,282
Non-restricted equity			
Fair value reserve		–7,972	–13,160
Share premium reserve		90,380	5,760
Retained earnings		443,198	434,466
Net result for the year		25,191	21,860
Total non-restricted equity		550,797	448,926
Total equity		**725,607**	**580,208**
Provisions			
Pension obligations	25	11,337	11,752
Total provisions		**11,337**	**11,752**
Non-current liabilities			
Borrowings	17	749,453	459,154
Liabilities to subsidiaries	17	163,336	–
Other liabilities	17	103,545	–
Total non-current liabilities		**1,016,334**	**459,154**
Current liabilities			
Borrowings	17	96,332	50,000
Trade payable		18,834	8,821
Liabilities to subsidiary		60,363	204,619
Other current liabilities	18	11,029	18,421
Accrued expenses and deferred income	19	11,090	7,443
Total current liabilities		**197,648**	**289,304**
TOTAL EQUITY AND LIABILITIES		**1,950,926**	**1,340,418**
Pledged assets	20	498,638	498,638
Contingent liabilities	21	227	235

Changes in equity for Parent Company

SEK THOUSAND	Note	Restricted equity	Non-restricted equity			
		Share capital	Fair value reserve	Share premium reserve	Retained earnings incl. net result for the year	Total
Opening balance at 1 January 2009		131,282	−13,694	5,760	447,594	570,942
Comprehensive income						
Net result for the year					21,860	21,860
Other comprehensive income						
Cash flow hedges, after tax			534			534
Total other comprehensive income			534			534
Total comprehensive income			**534**		**21,860**	**22,394**
Transactions with shareholders						
Dividend to Parent Company's shareholders	23				−13,128	−13,128
Total transactions with shareholders					−13,128	−13,128
CLOSING BALANCE AT 31 DECEMBER 2009	22	**131,282**	**−13,160**	**5,760**	**456,326**	**580,208**
Opening balance at 1 January 2010		131,282	−13,160	5,760	456,326	580,208
Comprehensive income						
Net result for the year					25,191	25,191
Other comprehensive income						
Cash flow hedges, after tax			5,188			5,188
Total other comprehensive income			**5,188**			**5,188**
Total comprehensive income			**5,188**		**25,191**	**30,379**
Transactions with shareholders						
New issue		43,528		86,620		130,148
Issue costs				−2,000		−2,000
Dividend to Parent Company's shareholders					−13,128	−13,128
Total transactions with shareholders		**43,528**		**84,620**	**−13,128**	**115,020**
CLOSING BALANCE AT 31 DECEMBER 2010	22	**174,810**	**−7,972**	**90,380**	**468,389**	**725,607**

Cash flow statement for Parent Company

SEK THOUSAND	2010	2009
OPERATING ACTIVITIES		
Operating profit/loss	–28,511	–34,958
Depreciation, amortization, and impairment losses	1,137	943
Financial income received	8,518	18,474
Finance expenses paid	–33,491	–28,523
Profit from interests in subsidiaries	29,645	68,079
Tax paid	–	–
Other items not affecting liquidity	–63,052	2,302
Cash flow from operating activities before change in working capital	**–85,754**	**26,317**
Change in working capital		
Current receivables	–9,393	4,691
Current operating liabilities	5,853	–656
Cash flow from operating activities	**–89,294**	**30,352**
INVESTING ACTIVITIES		
Acquisition of intangible and tangible assets incl. advance payments to suppliers	–17,427	–1,940
Investments in subsidiaries / Shareholders' contributions paid	–310,931	–112,648
Cash flow from investing activities	**–328,358**	**–114,588**
Cash flow after investing activities	**–417,652**	**–84,236**
FINANCING ACTIVITIES		
Payment of dividend	–13,128	–13,128
Proceeds from borrowings	512,670	253,942
Amortisation of loans	–71,204	–149,957
Cash flow from financing activities	**428,338**	**90,857**
Cash flow for the year	**10,686**	**6,621**
Cash and cash equivalents at start of year	6,098	0
Exchange rate difference in cash and cash equivalent	**–986**	**–523**
CASH AND CASH EQUIVALENTS AT YEAR-END	**15,798**	**6,098**

Parent Company's Notes

Parent Company's notes

All values are in SEK thousand unless stated otherwise.

NOTE 1 – ACCOUNTING POLICIES

The Parent Company has prepared its annual report in accordance with the Swedish Annual Reports Act and RFR 2 Accounting for Legal Entities. The rules in RFR 2 state that the Parent Company shall, in preparing the annual report for the legal entity, apply all IFRSs and statements approved by the EU as far as possible while complying with the Swedish Annual Reports Act and the Act on Safeguarding of Pension Obligations and taking into account the relationship between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared with IFRS.

Consequently, the Parent Company applies the principles presented in the consolidated accounts, with the exceptions indicated below. These principles have been applied consistently for all years presented, unless otherwise stated.

Format

The Income Statement and Balance Sheet follow the format in the Swedish Annual Reports Act. This entails differences compared with the consolidated accounts, mainly with regard to untaxed reserves and provisions.

Shares and interests in subsidiaries

Shares and interests in subsidiaries are recognised at cost less impairment losses. Dividends received are recognised as financial income.

Financial instruments

The Parent Company applies measurement at fair value according to Chapter 4 Section 14 a-d of Annual Reports Act, which means that the description of the Group's accounting policies applies to the Parent Company as well, except with regard to recognition of the profit or loss effects of hedging. The Parent Company accounts differ from the consolidated accounts in the following cases:

Changes in value of hedging instruments for hedging of highly probable cash flows are recognised in the Income Statement.

Changes in value of hedging instruments held for hedging of current and non-current receivables and liabilities are recognised in the Income Statement.

Group contributions and shareholders' contributions

The Parent Company applies the statement UFR 2, Group Contributions and Shareholders' Contributions, from the Swedish Financial Reporting Board. Shareholders' contributions paid are recognised as an increase in the value of shares and interests. A judgement is thereby made of whether the value of shares and interests is impaired. Group

CONT'D. NOT 1

contributions are recognised according to their economic implications. Group contributions paid or received for the purpose of reducing the Group's total tax are recognised directly in "Retained earnings" less the effect of current tax. Group contributions received that are equivalent to dividends are recognized as dividends from Group companies in the income statement. Group contributions paid that are to be equated with shareholders' contributions are recognised, after taking into account the effect on current tax, in accordance with the above principle for shareholders' contributions.

Pension obligations

The Parent Company's pension obligations are recognised in accordance with FAR SRS RedR 4, Accounting for Pension Liability and Pension Cost. The capital value of pension obligations not covered by insurance is recognised as a provision in the Balance Sheet. The interest element of the change in the pension liability is recognised as a financial expense. Other pension costs are charged to operating profit.

NOTE 2 – EMPLOYEES AND WAGES, SALARIES AND OTHER REMUNERATION

Average number of employees

	2010		2009	
	Total employees	Of whom men	Total employees	Of whom men
Sweden	11	8	9	6

Distribution of senior executives on the balance sheet date

	2010		2009	
	Total employees	Of whom men	Total employees	Of whom men
Board members	9	8	8	7
President and other senior executives	2	2	2	2

Salaries and other remuneration

	2010		2009	
	Salaries and remun.	Soc. sec. contrib.	Salaries and remun.	Soc. sec. contrib.
Total	**11,884**	**6,809**	**13,993**	**6,744**
of whom incentive, etc		2,524		1,811

CONT'D. NOT 2

Salaries and other remuneration broken down between board members etc. and other employees

	2010		2009	
	Board and CEO	Other employees	Board and CEO	Other employees
Total	**4,780**	**7,104**	**4,966**	**9,027**
of whom incentive, etc		345	1,394	2,100

The President and CEO received for 2010 a salary including remuneration for paid leave of SEK 3,861 thousand (2,550), a variable remuneration of SEK 0 thousand (1,394) and car benefit valued at SEK 140 thousand (111). Variable remuneration of SEK 1,012 thousand was paid for 2009. A pension premium was paid in 2010 of SEK 130 thousand (44) based on an agreement exchanging pension for salary. The Chairman of the Board received a fee of SEK 300 thousand for 2010 (300). The total fee paid to other Board members for 2010 was SEK 619 thousand (600). Board members Alf Tönnesson, Christian W Jansson and Ulrika Eriksson received SEK 150 thousand each. Board member Patrik Holm received SEK 119 thousand and board members Stéphane Hamelin and Eric Joan received SEK 25 thousand.

NOTE 3 – REMUNERATION TO AUDITORS

PwC

	2010	2009
Auditing assignments	295	244
Audit-related fees	2,712	85
Other services	3,184	157
Total	**6,191**	**486**

Remuneration to auditors amounting to SEK 533 thousand (486) was expensed, SEK 4,708 thousand (0) was reported as cost in the acquisition of Hamelin's envelope division and SEK 950 thousand (0) was reported as issue costs, directly to equity.

NOTE 4 – DEPRECIATION ACCORDING TO PLAN

Broken down by non-current asset

	2010	2009
Capitalized development costs	232	0
Equipment, tools, fixtures, and fittings	905	943
Total	**1,137**	**943**
Depreciation is recognised as administrative expenses	**1,137**	**943**

NOTE 5 – OPERATING LEASES

The nominal value of future lease payments is broken down as follows on the balance sheet date:

	2010	2009
Fall due for payment within one year	553	803
Fall due for payment after one year but within five years	469	512
Fall due for payment after five years	–	–

Leasingavgifter avseende operationella leasingavtal har under året erlagts med 904 TSEK (908). Inget leasingobjekt vidareuthyrs och det finns heller inga restriktioner i de ingångna leasingavtalen.

NOTE 6 – OTHER OPERATING INCOME

	2010	2009
Supplier bonus	4,733	999
Exchange gains	223	103
Rental and payroll costs	635	1,474
Total	**5,591**	**2,576**

NOTE 7 – PURCHASES AND SALES BETWEEN GROUP COMPANIES

The Parent Company's operations consist of administration of trading subsidiaries and Group management functions. In 2010 the Parent Company charged the subsidiary management fees amounting to SEK 27,225 thousand (0) and received SEK 635 thousand (654) in rental revenue. The Parent Company's purchases from subsidiaries amounted to SEK 11,740 thousand (17,517). Pricing between Parent and subsidiary is on a commercial basis and at market prices.

NOTE 8 – PROFIT FROM INTERESTS IN SUBSIDIARIES

	2010	2009
Dividend	17,820	40,228
Impairment of shares	–775	–
Group contributions received	12,600	27,851
Total	**29,645**	**68,079**

NOTE 9 – OTHER INTEREST INCOME AND SIMILAR LINE ITEMS

	2010	2009
Financial income, Group companies	7,862	17,994
Exchange rate differences on financial items	75,935	16,600
Interest income, other	656	480
Total	**84,453**	**35,074**

NOTE 10 – INTEREST EXPENSES AND SIMILAR LINE ITEMS

	2010	2009
Financial expenses, Group companies	–1,935	–2,422
Interest portion in this year's pension costs	–601	–518
Interest expenses, other	–26,468	–23,704
Exchange rate differences on financial items	–27,836	–19,584
Other financial expenses	–4,487	–1,879
Total	**–61,327**	**–48,107**

NOTE 11 – TAX

	2010	2009
Current tax	–	–
Deferred tax	931	875
Total	**931**	**875**

Difference between Parent Company's tax expense and tax expense based on applicable tax rate:

	2010	2009
Profit before tax	24,260	20,985
Tax calculated according to applicable tax rate of 26.3%:	–6,380	–5,519
Tax on:		
– dividend from subsidiary	4,687	10,580
– previously unrecognized tax loss carryforwards	3,158	–3,893
– other non-deductible expenses	–534	–293
Tax according to Income Statement	**931**	**875**

NOTE 12 INTANGIBLE ASSETS

	2010	2009
Opening cost	–	–
Purchases/acquisitions	15,810	–
Reclassification	2,582	–
Closing cost	**18,392**	**–**
Opening accumulated depreciation	–	–
Depreciation for the year	–232	–
Closing accumulated depreciation	–232	–
Closing residual value according to plan	**18,160**	**–**

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	2010	2009
Opening cost	22,413	19,828
Purchases/acquisitions	1,617	2,585
Reclassification	–2,582	–
Closing cost	**21,448**	**22,413**
Opening accumulated depreciation	–17,289	–16,346
Depreciation for the year	–905	–943
Closing accumulated depreciation	–18,194	–17,289
Closing residual value according to plan	**3,254**	**5,124**

NOTE 14 – INTERESTS IN SUBSIDIARIES 31 DECEMBER 2010

Company	Corporate ID no.	Domicile	Share of equity, %	Number of shares	Book value
Bong Sverige AB	556016-5606	Kristianstad, Sweden	100	804,000	195,282
ProPac International AB	556296-3115	Malmö, Sweden	100	10,000	24,030
Bongs Swedex AB	556044-3573	Malmö, Sweden	100	500	120
Bongs Konvolutter A/S	931080687	Tönsberg, Norway	100	20,000	27,780
Bong Bjørnbak AS	58154717	Hedehusene, Denmark	100	1	19,424
Bong Suomi Oy	745.192	Tammerfors, Finland	100	20,050	232,123
Bong GmbH	HRB 1646	Wuppertal, Germany	100	1	556,060
Bong Development 2009 Sp. Zo.o.	7675	Warszawa, Poland	100	5,165	100
Bong Ireland Ltd	192441	Kilkenny, Ireland	100	200,000	0
Bong Retail Solutions NV	826223234	Vichte, Belgium	1	4,000	40
Cadix SAS	518971866	Saint-Sébastien de Morsent,France	100	7,200,000	660,369
Curtis 1000 France Sarl	B329 200 570	RCS Créteil	100	1,000	315
Total					**1,715,643**

Opening book value of shares in subsidiaries	1,055,694
Impairment of shares Baltvokas	–775
Acquisition of shares in Bong Retail Solutions BV	40
Acquisition of shares in Cadix SAS	660,369
Acquisition of shares in Curtis 1000 France Sarl	315
Closing book value 31 December 2010	**1,715,643**

In 2010 an impairment charge of SEK 775 thousand was taken for shares in Baltvokas. Shares were acquired in Bong Retail Solutions BV for a value of SEK 40 thousand, in Cadix SAS for a value of SEK 660 369 thousand and in Curtis 1000 France Sarl for a value of SEK 315 thousand.
Further information about the acquisitions is provided in the Group's note 35.

NOTE 15 – INTERESTS IN OTHER COMPANIES 31 DECEMBER 2010

Company	Corporate identity number	Domicile	Invested capital	Book value	
Bong Fastigheter KB		969655-5763	Stockholm, Sweden	TSEK 1,000	1,000
Totalt					**1,000**

NOTE 16 – DEFERRED TAX

Deferred tax assets refer to the value of loss carryforwards: SEK 17,506 thousand (16,575).

NOTE 17– BORROWINGS

	31 Dec. 2010	31 Dec. 2009
Bank loans	749,453	459,154
Convertible loan	36,016	–
Shareholder loan	67,529	–
Liabilities to subsidiaries	163,336	–
	1,016,334	**459,154**
Current		
Bank credit lines	0	0
Bank loans	70,000	50,000
Shareholder loan, final settlement	26,332	–
	96,332	**50,000**

Convertible debentures

The loan consists of convertible bonds in 10 series each with a nominal value of maximum EUR 400,000, in series 2010/2015:1-10. Holdham S.A. has the right to subscribe for all convertible bonds.

The convertible bonds carry an annual interest rate equivalent to one hundred per cent (100%) of the sum of (i) EURIBOR with a term of 3 months plus (ii) 2.00 percentage points (2.00%).

The convertible bonds shall become due for redemption on 31 December 2015 to the extent that conversion has not occurred before then. The convertible bonds may be converted into new shares in Bong AB at the latest 10 days prior to the date when the convertible bonds are due for redemption. The rate at which conversion may be made shall be EUR 3.208055643 per share.

Shares issued due to the conversion shall entitle to dividends for the first time on the record day for the dividend that occurs next after conversion is executed. Upon conversion share capital may be increased with an amount equivalent to a maximum of SEK 12,468,600.

Of the Parent Company's borrowings, SEK 98 million (41) are loans for subsidiaries.

CONT'D. NOT 17

Maturity dates of long-term borrowings are as follows:

	31 Dec. 2010	31 Dec. 2009
Between 1 and 2 years	85,000	80,000
Between 2 and 5 years	178,544	60,000
More than 5 years	752,790	319,154
	1,016,334	**459,154**

Bank credit lines

The granted amount of the bank credit line in the Parent Company is SEK 50,000 thousand (50,000), of which SEK 0 thousand (0) is utilised.

NOTE 18 – OTHER CURRENT RECEIVABLES AND LIABILITIES

Other current receivables	31 Dec. 2010	31 Dec. 2009
Currency and interest rate derivatives	1,078	840
Other current receivables	3,151	1,480
Total	**4,229**	**2,320**

Other current liabilities	31 Dec. 2010	31 Dec. 2009
Currency and interest rate derivatives	9,008	16,725
Other current liabilities	2,021	1,696
Total	**11,029**	**18,421**

NOTE 19 – DEFERRED/ ACCRUED INCOME/EXPENSES

Deferred expenses and accrued income	31 Dec. 2010	31 Dec. 2009
Supplier bonus	3,520	201
Internal and external interest income	5,993	539
Other accrued expenses	5,657	6,946
Total	**15,170**	**7,686**

Accrued expenses and deferred income	31 Dec. 2010	31 Dec. 2009
Pay-related accrued expenses	4,408	5,975
Other accrued expenses	5,829	1,262
Internal and external interest expenses	853	206
Total	**11,090**	**7,443**

NOTE 20 – PLEDGED ASSETS

	31 Dec. 2010	31 Dec. 2009
Relating to liabilities to credit institutions	–	–
Shares in subsidiaries	498,638	498,638
Total	**498,638**	**498,638**

NOTE 21 – CONTINGENT LIABILITIES

	31 Dec. 2010	31 Dec. 2009
Other contingent liabilities	227	235
Total	**227**	**235**

NOTE 22 – DIVIDEND

A dividend for 2010 of SEK 1 per share, totalling SEK 17,481 thousand, will be proposed at the AGM on 12 May 2011. A dividend for 2009 of SEK 1 per share, totalling SEK 13,128 thousand, was approved at the AGM on 18 May 2010.

NOTE 23 – INFORMATION ABOUT BONG AB

Bong AB is a public limited liability company domiciled in Kristianstad, Uddevägen 3, Box 516, SE-291 25 Kristianstad, Sweden. The address of the company's head office is Hans Michelsensgatan 9, SE-211 20 Malmö, Sweden. Bong AB is listed on NASDAQ OMX Stockholm (Small Cap).

NOTE 24 – SHARE CAPITAL

The number of shares at year-end 2010 was 17,480,995 (13,128,227) with a quotient value of SEK 10 per share (SEK 10 per share). Share capital increased by 4,352,768 shares with regards to a private placement of new shares to Holdham SA.
All issued shares are fully paid.
Detailed information about the Parent Company's shares, share capital and convertible bonds can be found in the Group's note 33.

NOTE 25 – PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

	31 Dec. 2010	31 Dec. 2009
PRI pensions	11,337	11,752
Total provisions	**11,337**	**11,752**

NOTE 26 – OTHER ITEMS NOT AFFECTING LIQUIDITY IN THE CONSOLIDATED CASH FLOW STATEMENTS

	2010	2009
Exchange rate differences and other	−63,052	2,302
Total	**−63,052**	**2,302**

The consolidated financial statements will be submitted to the Annual General Meeting on 12 May 2011 for adoption. The Board of Directors and the President ensure that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and give a true and fair view of the Group's financial position and results of operations.

The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting policies in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Administration Report of the Group and the Parent Company gives a true and fair view of the Group's and the Parent Company's operations, position and results and describes significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Kristianstad, April 6, 2011

Mikael Ekdahl
Chairman of the Board

Alf Tönnesson
Member of the Board

Stéphane Hamelin
Member of the Board

Eric Joan
Member of the Board

Christian W Jansson
Member of the Board

Ulrika Eriksson
Member of the Board

Peter Harrysson
Member of the Board

Christer Muth
Member of the Board

Anders Davidsson
President
Member of the Board

Our Audit Report was submitted on April 6, 2011

Eric Salander
Authorised public accountant

Mathias Carlsson
Authorised public accountant

Auditors' report

To the Annual General Meeting of Shareholders of Bong AB (publ), Corp. ID no. 556034-1579

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Bong AB (publ) for the year 2010. [The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 2–8 and 12–36]. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Kristianstad, April 6, 2011

Eric Salander
Authorised public accountant

Mathias Carlsson
Authorised public accountant

Definitions

Net debt
Interest-bearing liabilities and provisions less cash on hand, bank deposits and interest-bearing receivables

Net debt/equity ratio
Net debt in relation to equity

Diluted earnings per share
Profit after tax divided by the average number of shares after dilution

Basic earnings per share
Profit after tax divided by the average number of shares before dilution

Equity/assets ratio
Equity as a percentage of the balance sheet total (total assets)

Annual General Meeting

The Annual General Meeting will be held on Thursday, 12 May 2011, at 4:00 p.m. in IMP's premises at Ångbåtsbron 1 in Malmö.

Participation at the AGM
Shareholders registered in the share register kept by Euroclear Sweden AB on 6 May 2010 are entitled to participate in the meeting. To be eligible to participate in the Annual General Meeting, shareholders with nominee-registered holdings must therefore temporarily re-register their shares in their own names through the agency of their nominees so that they are recorded in the share register in due time before Friday 6 May 2011.

Shareholders who wish to participate in the meeting must notify the company by mail at Bong AB (publ) Attn: Anna-Lena Petersson, Hans Michaelsengatan 9, 211 20 Malmö, or by phone +46 (0)40-17 60 41, by fax +46 (0)40-17 60 39, by e-mail to bolagstamma2011@bong.com, or on the company's website www.bong.com not later than Friday 6 May 2011 12 noon.

Dividend
The Board of Directors and President propose that the AGM resolve that a dividend of SEK 1 per share be paid for 2010.

Agenda
The AGM will consider items of business which are required by law and the Articles of Association to be dealt with at the meeting, as well as other items of business mentioned in the notice convening the meeting.

Report dates

• First quarter report January – March 2011	12 May 2011
• Annual General Meeting	12 May 2011
• Half-year report January–June 2011	24 August 2011
• Nine-month report January–September 2011	November 2011
• Year-end report 2011	February 2012

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BONG

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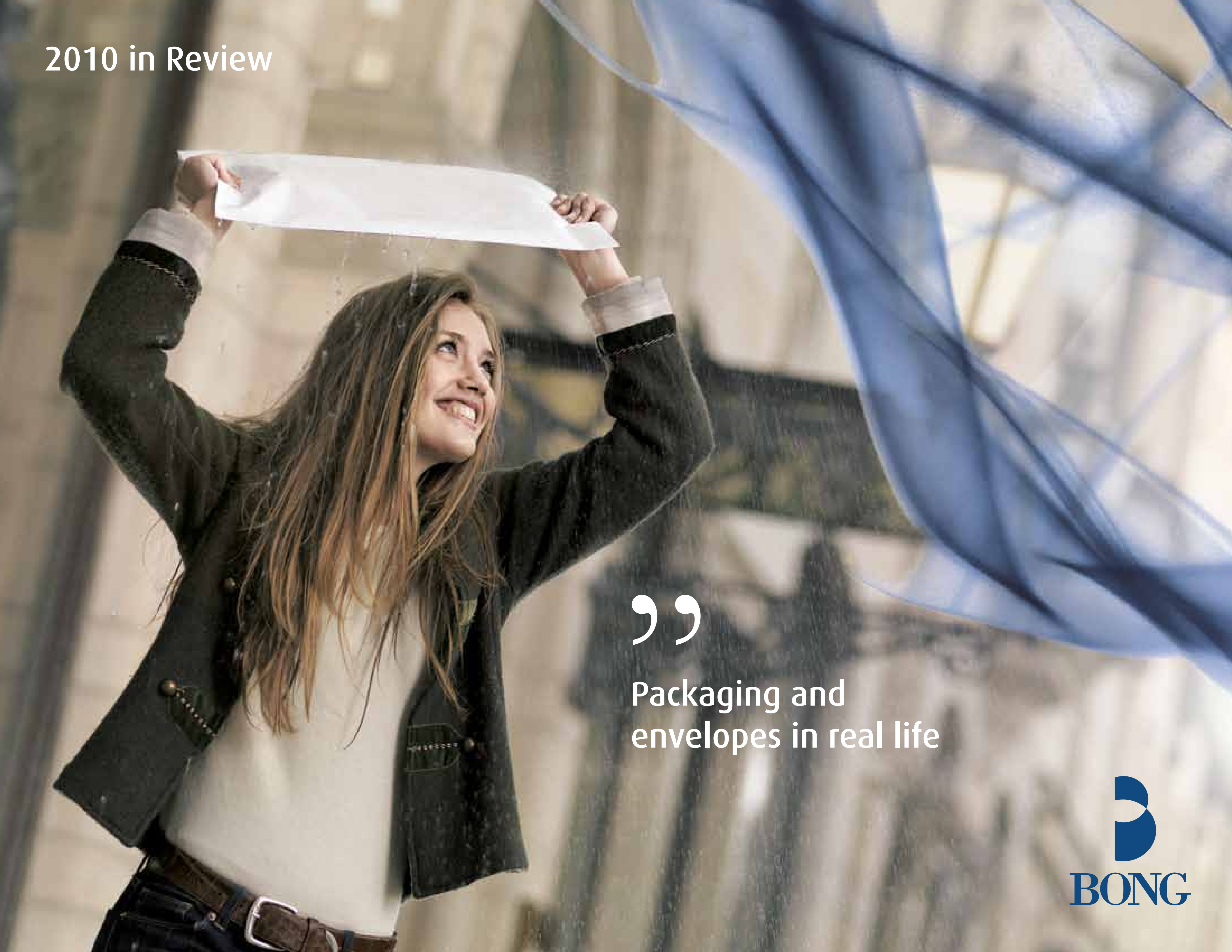
2010 in Review



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Packaging and
envelopes in real life

BONG

business

ACROSS GEOGRAPHIES
Bong is the European leader in specialised packaging and envelopes, whose market reaches from the Atlantic Ocean to the Ural Mountains. As the only market player with a presence in the Nordics, Germany, France and the United Kingdom – the biggest envelope markets in Europe – Bong is the ideal partner for pan-European customers. Previously established in the Baltic region and Russia, Bong has now gained interesting positions in Spain, Benelux and Poland.

BELOW THE SURFACE
Bong develops smart packaging concepts for e-business and retail. Packaging and envelopes are often tools to facilitate business communication. They protect, create a mood and build the sender's brand in the mind of the recipient. Financial information and addressed direct mail advertising are major applications where envelopes play a critical role.

BEYOND BOUNDARIES
New materials and solutions are generating new applications and customers. Demand for sophisticated, sustainable packaging is on the rise. The boundary between envelope and package is blurring. The Group's target growth areas are the ProPac packaging range, Overprinting and Russia/Eastern Europe, which combined account for about one third of the total sales in 2010.

ABOVE EXPECTATIONS
Bong is a customer-focused company. Our customers appreciate the strong local base offering the company's entire range of products and service. Bong's goal is to be the preferred supplier in its markets. The biggest envelope customers are the office supply trade and paper wholesalers. Fashion and mail order companies and packaging wholesalers are major customers for the ProPac range.

in real life

HIGHLIGHTS OF THE YEAR

- In the autumn Bong merged with Hamelin's envelope division. After the merger the new Bong has **SEK 3.5 billion in sales** and **2,400 employees** in **fifteen countries**
- Revenue amounted to SEK 2,326 million (1,915). Hamelin is part of the Group as of October 2010
- The ProPac packaging initiative continued to grow rapidly and accounted for SEK 390 million (247) of consolidated sales in 2010
- Bong's acquisitions included Tycon in Luxembourg, which produces envelopes and packaging in Tyvek®, 50 per cent of capital in Image Envelopes in the UK, specialised in Embossing, and the remaining 12 per cent in Voet, the Netherlands, which is prominent within ProPac
- Operating loss was SEK –91 million (65) and earnings after taxes amounted to SEK –97 million (24). Non-recurring costs of SEK 157 million were charged against earnings
- Cash flow after investing activities totalled SEK 25 million before the purchase sum and transaction costs in connection with the Hamelin merger (169)
- After merger, Holdham becomes the biggest shareholder in Bong with 24.9 per cent of votes and capital
- The Board of Directors proposes that a dividend of SEK 1 (1) per share be paid, for 2010.

Our constant aim is to offer our customers the right solution for their products, whether envelopes or packaging.

With commercial benefit to the customer in mind, we continually develop novel solutions that keep pace with the changing market. Our tools are a robust product range, the right grades in materials and printing, efficient logistics and warehousing and local service.

Envelopes and packaging are timeless and indispensable: They communicate in real life.

Dear **Customers**...

2010 was an exciting year for Bong and the main event was the merger with the envelope division of the French company Hamelin through which we nearly doubled our size and strength. We know you have high expectations of us and we believe that the conditions for living up to them have considerably improved. The new Bong is putting everything it has into becoming an even better partner to you, in a variety of ways. This will involve everything from more frequent interaction and product development to full-coverage market presence and further development of our focus on sustainability.

MORE FREQUENT CUSTOMER INTERACTION

We plan to work even more closely with you to make sure we understand your unique needs and develop our product and service proposition accordingly. Representatives of the new Bong will be calling on you more often and communicating more frequently in 2011. The goal is to jointly identify shared growth opportunities. Greater central resources will be allocated to developing products and services. As an example, we have already built a team that will head up development of our ProPac range. We have also appointed a European Sales Manager tasked with developing the value proposition for our pan-European customers in the office supply trade.

COMPLETE AND EXCITING PRODUCT RANGE

We have the broadest, most complete product range on the market, bar none. We have access to extremely efficient production with premium print quality and tremendous flexibility in all key markets. As a matter of fact, we can offer exactly the solution you need – whether that may be standard envelopes in large volumes, short-run envelopes with bespoke overprinting or brand-building gift bags.

Most of our products are paper-based, but we also have the exclusive right to manufacture Tyvek® envelopes and packaging in Europe. Tyvek® is a unique, lightweight polyethylene material that looks like paper but is water-resistant and impossible to tear. With its extraordinary characteristics, Tyvek makes entirely new applications possible. You can read more about intelligent envelopes on page 5.

Our ProPac range of specialist packaging including gift bags, expander bags, bubble bags and padded bags has made a huge breakthrough in traditional retail and e-business sectors. All of our markets are going to have access to Bong's complete range of products and services – that is our promise to you.

UNIQUE GEOGRAPHICAL COVERAGE

We are found from Spain to Russia and act as a reliable and efficient partner to customers with operations in several European countries. We coordinate complex purchasing and logistics structures at the European level while maintaining local representatives in most countries. They know the ins and outs of the local market and can communicate with your employees in their own language. With our expansive network of printers, warehouses and sales offices, we also serve small and medium size customers with fast delivery and high efficiency.

ENVIRONMENTAL RESPONSIBILITY

At the new Bong, we are working systematically to minimise our environmental impact. We buy paper from suppliers who practise sustainable forestry and continuously replant forests logged to make wood and paper products. Our own production is virtually emissions-free and we recycle virtually all production waste. Most of our production units are certified according to Paper by Nature standards, which were developed specifically for paper converting. In addition, we hold several environmental certificates including FSC, PEFC, ISO 14001 and the Nordic Swan label.

I hope you will notice our concerted efforts to become an even better supplier. I would like to express my thanks for the confidence you showed in us in 2010 and my hope is that our mutually rewarding partnership will continue in 2011.

...and **Shareholders**

The foundation for a Bong with even stronger emphasis on dynamic performance was laid in 2010 through a major structural transaction and several strategic acquisitions. These generated non-recurring expenses that were charged against profit, but this should be considered in light of the substantially better growth opportunities achieved in the process.

MERGER A LOGICAL PROGRESSION OF THE ALLIANCE

We have been cooperating with Hamelin in a strategic alliance since spring 2004 in order to give European customers a coordinated value proposition. Once we went all the way and merged, it made perfect sense. I am convinced the integration will go smoothly because we have been practising together for several years already.

STRONGER POSITIONS AND EUROPEAN MARKET LEADERSHIP

At one blow, Bong gained a strong presence in the major French market and stronger positions in Germany and the United Kingdom – partly because we have doubled our size in these markets and partly because Hamelin brings a stronger position in the direct marketing and inserting segment. We also gained an interesting presence in Spain and a stronger position in the dynamic Polish market. As a whole, Bong is now taking unmistakable European market leadership.

SIGNIFICANT SYNERGIES WITHIN REACH

The merger will produce significant synergies in the form of added sales, higher cost efficiency and improved cash flow. We will be able to exploit our new market positions to sell more ProPac in France, for example. There will also be savings on the purchasing side and in the production structure. Overall, we expect cost synergies of SEK 90–100 million after two years. In our judgement, we will also be able to free up working capital and sell assets to improve cash flow by SEK 50–70 million as a one-time effect over the next two or three years.

STRONGER UNDERLYING CASH FLOW

We have reduced working capital by more than SEK 200 million in recent years, which was a major factor behind the very strong cash flow in 2008 and 2009. Combined with a limited need for reinvestment in machinery, this made it possible for Bong to rapidly reduce net debt, which was important to finalising the Hamelin deal. Despite rising paper prices and organic growth, we were able to free up working capital again in 2010 and achieve positive cash flow.

ACCELERATED GROWTH ON THE AGENDA

We made six acquisitions in 2010 within our prioritised growth areas. Our growth is continuing at full power in Russia and in the ProPac segment. Russia has recovered nicely after the financial crisis and we are now stepping up capacity to meet the growing demand. Several product groups within ProPac have attracted greater interest in the market and Bong is investing in higher sales and production capacity to fuel rapid growth.

On the strength of a major structural deal that enables significant synergies, stronger underlying cash flow and several interesting growth tracks, we are optimistic about the future. Bong is growing from strength to strength and there is clear potential to develop the company and increase its value for both customers and shareholders.

Malmö, March 2011

Anders Davidsson
President and CEO

The new **Bong**

The merger with the envelope division of the French office supply company Hamelin is Bong's biggest structural transaction ever. The deal made Bong by far the largest specialised packaging and envelope company in Europe. The new Bong has the widest and deepest geographical coverage and product portfolio in the business.

HIGHER VALUE FOR EVERYONE

The new Bong Group has sales of SEK 3.5 billion, 2,400 employees and operations in 15 European countries.

The merger secures a competitive value proposition to customers from a professional market player with long-term commitment to the industry. The stronger platform is generating greater resources for product and service development within the entire operational field. This will make a tangible difference to customers in the form of a stronger value proposition in all markets. Employees will be given personal career development opportunities in an entirely new way, while for shareholders the common platform will give rise to significant synergy effects that entail high potential for increasing the value of the company.

SIGNIFICANT SYNERGIES

Streamlining purchasing, distribution, administration, production and capital tied up is expected to produce cost synergies of SEK 90–100 million with full effect after two years and improve cash flow by SEK 50–70 million. The one-time cost of the changes, an estimated SEK 123 million, was charged against earnings in the fourth quarter of 2010.

THE BIGGEST PLAYER IN THE MARKET

Bong and Hamelin complement each other perfectly in terms of geography and products. Both companies enjoy strong market positions, Hamelin in France and Bong in the Nordics, Baltics and Russia. Both also do business in Germany and the UK and the merger has made the new Bong twice its former size in these markets. The new Bong has gained new and interesting positions as springboards to growth in Spain, Benelux and Poland.

When it comes to products, Bong brings its ProPac packaging venture into the mix, while Hamelin's strengths include high-quality envelopes for direct mail applications and consumer-packaged envelopes.

STRONG PLATFORM FOR GROWTH

The new Bong has a unique sales network. Bong is the only company in the business operating in all major European markets, which reinforces its position among pan-European customers seeking a partner with the power to deliver in multiple countries.

The merger also brings opportunity to increase sales because the entire range was not formerly available in all markets. Bong expects to be able to substantially accelerate sales, especially of the successful ProPac range and particularly in France.

The company is also allocating greater resources and stepping up product development to respond to customer needs.

BROAD PORTFOLIO OF STRONG BRANDS

Despite its status as a large company, Bong is committed to diversity and proud of its local base. This is a strength for Bong in relation to interaction with customers and distribution power in the various markets.

The Group has several well-known brands in the envelope business, including Oxford, Posthorn and Mailman. Bong also has exclusive rights to manufacture and market envelopes and light-weight packaging made of Tyvek®.

Intelligent envelopes for the French postal service

Bong's customer La Poste, the French postal service, is one of many postal operators that are increasingly selecting envelopes made of Tyvek®. Tyvek® is uniquely strong, has protective characteristics and is lighter than other materials.

La Poste, one of the biggest sellers of Tyvek® envelopes for 17 years, has built up an entire concept around its Tyvek® envelopes to give its customers:

- Postage paid envelopes
- Insurance cover for valuable mail
- Tracking service to inform customers at any time of the location and delivery status of their envelope

These high-quality envelopes have several applications. The concept is ideal as a full-coverage solution for consumers and businesses.

SUPERIOR PROTECTION

Envelopes made of Tyvek® provide unsurpassed protection for important, confidential, heavy, bulky documents or objects to make sure they arrive safely and undamaged. Through its unique sheen and silky feel, the envelope signals that the sender wants the contents to arrive in perfect condition and that every piece of mail is important.

Tyvek® is lighter than paper products, which reduces emissions as well as postage and transport costs.

ABOUT TYVEK®

Tyvek® is a thin material made of polyethylene. The fibres are flash spun and then bonded under heat and pressure, giving the material unique characteristics that make it resistant to tear, punctures and moisture. The material is lightweight, bright, flexible and extremely robust and durable. Tyvek® is a registered trademark of DuPont™. Bong has exclusive rights in Europe to develop, manufacture and market envelopes made of Tyvek®.

Ambitious **targets** and well-defined **strategies**

Supported by the year's acquisitions and the merger, Bong is now even more oriented towards expanding in its target growth areas and enhancing profitability in the envelope business.

In order to strengthen its position as the European leader in specialised packaging and envelopes, Bong will:

- Enhance the customer value proposition: Bong will develop the envelope and packaging solutions of the future
- Increase productivity
- Advance its positions in overprinted envelopes
- Continue developing its strong positions in selected growth markets, such as Russia
- ProPac – further develop the range, intensify marketing and expand availability to all geographic markets
- Exploit the opportunities for cross selling created by the merger – this applies equally to ProPac, DM and consumer packaged envelopes.

Sales of ProPac in the new Bong will exceed **SEK 500 million**

FINANCIAL TARGETS

In 2009, Bong set the following financial targets for 2009–2011:

- Debt-to-EBITDA ratio of 3.0 or below at year-end 2011
- Operating margin of 6 percent at year-end 2011
- Average annual growth of 25 percent for ProPac.

New financial targets are in the process of being set after the merger with Hamelin.

DIVIDEND POLICY

Bong will pay dividend corresponding to at least one third of reported profits after tax if justified by the company's financial position and development opportunities.

STRATEGIC DIRECTION

The goal is profitable and expanding operations in Europe in packaging and envelopes. Bong's targeted growth areas are ProPac, Overprinting and Russia and Eastern Europe.

PROPAC

Bong will further develop the ProPac range through continued investments in product development, marketing and the sales organisation.

OVERPRINTING

Bong will develop its position in Europe in overprinting – printing on finished envelopes. Current operations will be supplemented with overprinting plants in countries and regions where Bong is not currently doing business. The goal is a network of printers in Europe built up through organic growth and acquisitions. Bong focuses on customers with high demands for availability, supply capacity and printing quality.

ENVELOPES IN RUSSIA AND EASTERN EUROPE

Bong will continue exploiting the advantages of its expertise and extensive machinery in Western Europe to strengthen its presence in growing envelope markets, such as Russia and the Baltic countries.

ENVELOPES IN WESTERN EUROPE

For the envelope business in Western Europe, the priorities are higher gross margins and efficiency across the board. Cash generated by the mature envelope business will be invested in the target areas of ProPac, Overprinting and Russia/Eastern Europe.

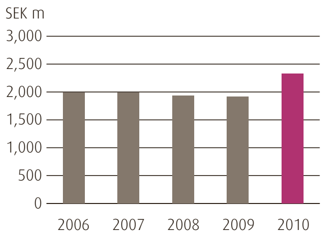
Acquisitions in 2010

In addition to the merger with Hamelin, Bong finalised the following acquisitions in 2010

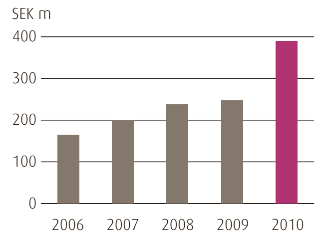
Company	Country	Acquisition,%	Segment	Annual sales, SEK million
Tycon	Luxembourg	100	ProPac	10–15
Image Envelopes	United Kingdom	50	Overprinting	20–25
Voet	Benelux	12 (to 100)	ProPac	35–40
Taberg	Sweden	100	Overprinting	20–25
CSK	Poland	90 (to 100)	ProPac/Overprinting	45–50
Egå Offset*	Denmark	100	Overprinting	30–35

* January 2011

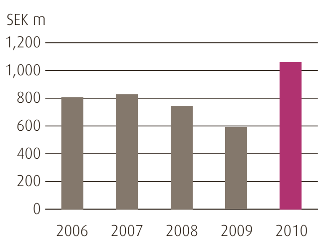
SALES



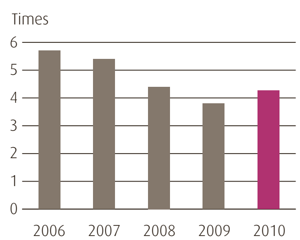
PROPAC SALES



NET DEBT



NET DEBT/EBITDA*



* EBITDA stated pro forma excluding non-recurring costs in 2010.

34% organic growth for ProPac

Tyvek® generated sales of **SEK 90 million**

Record sales of **SEK 50 million** for gift bags

In-house production of bubble bags through acquisition

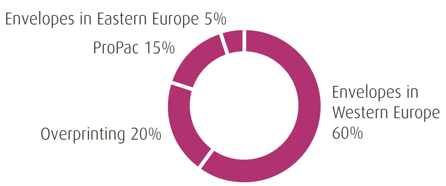
Bong customers are everywhere

Bong supplies envelopes and specialised packaging to all of Europe – home to more than half a billion people. Bong's packaging and envelopes are aimed at these people, but are purchased by office supply wholesalers, large companies, e-business/mail order companies and retailers.

FROM THE ATLANTIC TO THE URALS

Bong's market reaches from the Atlantic Ocean to the Ural Mountains. The widespread presence is an advantage to international customers. For many, Bong's presence in all of Europe and Russia is critical, while other customers choose Bong for its local base. Bong is a reliable and dynamic partner for pan-European customers as well as small and medium-size customers throughout Europe.

DISTRIBUTION OF SALES



EUROPEAN ENVELOPE MARKET

Western Europe

Envelope usage varies widely between different regions in Europe. Envelope usage in the Scandinavian countries and the rest of Western and Northern Europe is about 300 envelopes per person per year, while the corresponding figure in Eastern Europe ranges from 20 to 70 depending on the country.

The European envelope market amounted to 82 billion envelopes in 2009. France, Germany and the United Kingdom account for about 70 percent of total envelope consumption in Europe.

Russia and Eastern Europe

Eastern Europe including Russia accounts for less than 10 percent of the European market. There is substantial growth potential in Russia and the Baltic countries where envelope consumption is 20–30 envelopes per person per year compared to 200–300 in Western Europe.

Sales of envelopes in Russia, Poland and the Baltics account for about 6 percent of consolidated sales. Long-term, envelope consumption in Poland and other countries in Eastern Europe is expected to grow by about 20 percent a year.

Bong is already the leading quality supplier in Russia, concentrating primarily on Moscow and other metropolitan regions. Envelopes are marketed under the Postac brand, which is associated with the West in the increasingly consumer-oriented Russian market.

EUROPEAN PACKAGING MARKET

The segment of the packaging market in which Bong operates is worth about SEK 150 billion a year. Bong generates sales of about SEK 400 million for a market share of 0.3 percent.

MAJOR POTENTIAL FOR PROPAC

The packaging market is constantly evolving, driven primarily by developments in the retail and e-business markets. As the boundary between envelope and packaging is narrowing, market players differ widely. Large, multinational companies are competing with smaller, local specialists to meet customers' wide-ranging and highly variable needs.

Spain
France
United Kingdom
Belgium
Netherlands
Luxembourg
Germany
Denmark
Norway
Sweden
Finland
Latvia
Estonia
Poland
Russia

”Bong is the ideal partner for pan-European customers. They turn to Bong for full-service solutions that cover both packaging and envelopes.

Packaging and envelopes serve a purpose

The surface protects and conceals – but can also trigger thoughts and feelings in the recipient. Often, the surface plays a strategic role in building the image of both the sender and the user. Below the surface, there are always contents that become more valuable in a package or an envelope. Bong has solutions to serve every purpose.

LETTERS ENGENDER TRUST

Companies account for 90–95 percent of envelope usage in Western Europe. Bong's customers include companies in the telecom, banking, insurance, financial services, energy and water sectors with millions of customers all over Europe. Contracts, wage and pension statements, invoices and confirmations of transactions are sent by letter every day. Companies and government agencies use envelopes for many reasons. In some countries, certain financial information must be paper-based by law. Many companies, especially in the financial services sector, use envelopes to engender trust – for these companies, information printed on paper and mailed in an envelope is a strategic tool.

Surveys performed by the British Royal Mail show that many customers, even if they manage their personal finances via online banking, prefer to get information about their transactions by letter. Three quarters of survey respondents said the best combination was to get their bills on paper and pay them online.

The survey also showed that customers like the combination of financial information and special offers. About 70 percent of consumers say that they pay attention to advertising printed on paper-based financial information.

DIRECT MARKETING GENERATES ACTIVITY

Envelopes for Direct Marketing (DM) make up more than 30 percent of total letter volume in Northern and Western Europe and that percentage is rising. One reason addressed DM is gaining in popularity among many companies is the superior ability to tailor the message and design to the target group, compared to magazine and broadcast advertising. Format, colour, structure and paper quality work together with the contents to create a focused message.

Advertising agencies and other companies that use DM have high standards for availability, print quality and flexibility. Time is almost always short and fast deliveries a must. Assignments frequently involve printing promotional messages, logos, etc., on finished envelopes in short production runs and with wide variation. Bong's dense network of overprinting plants and modern digital technology are superbly suited to DM, which is evident in the growing volumes of this type of assignment.

PROPAC PROTECTS AND COMMUNICATES

Bong's ProPac range is the answer to many of today's challenges faced by companies in a wide variety of sectors, as distances increase between the customer and the sender, and as brand-building becomes ever more important. This is particularly apparent in retail and e-business. Packaging protects the contents, triggers associations and creates attention.

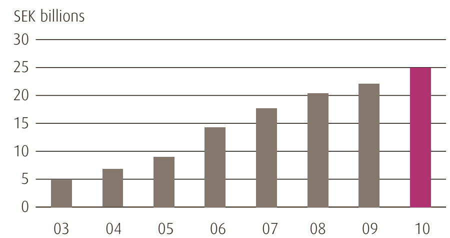
BRANDING AND EASY HANDLING

Many fashion companies use Bong's gift packaging in their stores to enhance the value of the contents of the package. The objective is to use first-class printing to position the company, build the brand and enhance store promotions. The right packaging extends and elevates the shopping experience, but much of the rising popularity of packaging from Bong is due to its superb functionality. The materials take up little space and are very easy for employees to handle, which saves companies time and money.

STRONG E-BUSINESS GROWTH POTENTIAL

Mail order and e-business companies are demonstrating robust growth. For these companies, catalogues, the internet and physical deliveries are parts of the chain that builds customer relationships. Bong is another important link in the chain, delivering the packaging solutions that successful e-business demands. What can be purchased online and how the purchase can be packaged are limited only by inventiveness. Bong works closely with its customers to provide the right packaging solution in terms of material, shape and printing.

E-BUSINESS IS GROWING FAST



The Swedish e-business sector has grown by 20 percent a year since 2003.

"The pleasure of a good buy lasts longer when it comes in a cool package. Especially if the package is practical and communicates a message that enhances the value of the contents.

Boundless development

Bong is driving the trend towards smarter packages and envelopes through increasingly innovative solutions that interact with the contents, protect the environment and are easily transported. With creative ideas for product and service development, Bong aims to be its customers' best partner.

PROPAC UNDER CONSTANT REINVENTION

Product development is moving fastest in the ProPac packaging range, keeping pace with the business environment and responding to the pressure of current trends. New materials and solutions are regularly added to the range, with development driven by increasing demands for sustainable alternatives.

Strong packages that stand up to stacking, light packages that make transport more efficient and smart packages that save time are just a few examples of solutions that are enhancing customer benefit.

Retail, e-business and everyday mailing are the main applications for ProPac. Bong offers a wide range of possibilities for these segments under four concepts: Everyday, Smart, Security and Show-off.

- Everyday – for everyday use. The bestsellers include padded bags and board back bags. They are often sold via wholesalers and are designed for all companies that send things by mail.
- Smart – for e-business and packing companies that need smart, practical solutions for their dispatches. The range includes mail order bags, bubble bags, book wraps, boxes and cartons. The products are usually bought directly by the companies that will be using them.
- Security – safe, secure materials that cannot be torn apart, such as Tyvek® and Securitex, Grip seal bags and SafeBags. Customers run the gamut from e-business to national postal services and companies that send legal documents. The products are sold via office supply wholesalers.
- Show-off – gift wrapping solutions for retailers that take the mood of the brand outside the store. Gift bags, carrier bags, accessory bags and gift wrap are included in the range, which is sold both by wholesalers and directly to large retailers, primarily in the fashion apparel sector.

BONG IS TAKING ENVELOPES TO THE NEXT LEVEL

Bong produces and sells envelopes in every shape and size. From standard envelopes to bespoke solutions with sophisticated features. Printed or unprinted, with closures of various types and in a wide range of materials, colours and formats.

The envelope range is also being developed, with new materials for new functions. Since the autumn of 2009, Bong holds exclusive rights to manufacture envelopes and packages made of Tyvek®. The strength of this unique material makes envelopes made of Tyvek® attractive to many customers. Applications are increasing as the qualities of Tyvek® are enhanced by modern technology for tracking and security.

AN ENVELOPE FACTORY BECOMES A PACKAGING PLANT

Bong has increased its packaging production capacity to meet growing demand. The factory in Nybro, Sweden, is one example. Once totally concentrated on envelopes, ProPac now accounts for 60 percent of production. And Bong is planning further investments in machinery and know-how to take full advantage of market opportunities.

Bong protects your data

RFID – Radio Frequency Identification – is a technology that makes it possible to scan a credit card without physically touching it. Backed up by DuPont™ Tyvek®, Bong offers a security solution that reduces the risk that information will end up in the wrong hands. For companies that issue credit cards and other cards loaded with sensitive information, envelopes that offer this kind of protection are indispensable.

TOUCH-FREE

RFID is paving the way for contactless payment systems. A cardholder needs only show the card to a special RFID reader. No waiting, no signature. And the card never leaves the cardholder's hand.

The only difference between contactless cards and ordinary cards is that the information is transmitted via a tag instead of a magnetic strip. The tag consists of a chip and an antenna that sends radio signals.

Credit cards are one important application, but far from the only one. RFID technology is used in tickets, passports and other valuable documents. In Germany, for instance, all passports have been fitted with an RFID-readable chip since 2005.

SENSITIVE DATA IS AT RISK

The drawback to the technology is the risk of unauthorised reading of the information in the chip, which in many cases is all that is required to access funds in an account or cause other harm.

BONG HAS THE SOLUTION

Radio waves can be prevented from getting through by applying a thin laminate of aluminium to Tyvek® envelopes. This allows cards to be sent in the envelopes and stored in pockets with no risk for unauthorised reading. Bong markets these secure envelopes under the ScanSafe® brand.

Above expectations

A multinational company in the customer's neighbourhood

A strong local base puts Bong close to its customers in all markets. The new Bong is stepping up customer marketing to give everyone access to the reinforced value proposition.

A DYNAMIC AND WINNING COMPANY

Bong is characterised by dynamic change – acquisitions, mergers, new production techniques, new skills. In December 2010, Bong was almost twice as large as it was the year before. The new Bong is now focused on accelerating development, internally and externally.

Bong's international presence makes it possible to quickly pick up signals in one market and apply them in another. This also applies to best practices in production, where successful methods are quickly spread company-wide.

Step by step, Bong is evolving from envelope producer to solutions-oriented specialised packaging company. This is demanding investments in new machinery and new skills, such as dedicated sales representatives, production managers and account managers.

PROUD BONG

New opportunities for personal career development are opening up to Bong's people. They are moving between countries, advancing to new functions and working for a true multinational – but most of all, they are proud of their dynamic company.

The integration of Bong and Hamelin is in full swing, and formulating common core values for the company is a key ingredient. The point of departure is the strong customer focus, that was the hallmark of both companies even before the merger.

EUROPEAN SIZE, LOCAL PRESENCE

Bong is present in 14 European countries and Russia. The company is organised to achieve maximum proximity to customers in four business units: Nordic, Central Europe, France and United Kingdom.

Efforts to achieve proximity involve both reducing physical distances and maintaining close dialogue with Bong's customers. For the customer, the value lies in easier access to inspiration from Bong and suggestions for solutions perfectly aligned with their circumstances – in their own language and from their dedicated contact person. For Bong, the value lies in learning more about the customer's business and future needs. Bong also makes product and technical specialists available to its customers.

Orders are shipped whenever possible from factories and warehouses near to customers to minimise delivery snags and transport-related emissions.

DIVERSE CUSTOMER BASE

Bong is there for the international retail fashion chain or e-business company, the local printer and other small businesses. To all of them, Bong is an innovative supply partner with a long-term perspective. The packaging and envelopes are right, service is excellent, getting in touch and placing orders is easy, and Bong is local – all over Europe.

Bong is accessible and has the service-mindedness of a small company backed up by the resources of a multinational.

" The package brings the store to the street.

Packed in a Flash

> Fabulous packaging for a fabulous buy.

Fredrik Johansson
Flash CEO

HOW IS PACKAGING SIGNIFICANT TO YOU?
"We wanted packaging that sends a signal about us. Bong's concept works beautifully with what we stand for: smart solutions and good quality," says Fredrik Johansson, CEO and marketing manager for Flash.

"There is a practical side to things too. We have to use space wisely and Bong packaging comes in clever boxes that fit under the checkout."

WHY DID YOU PARTNER WITH BONG?
"Because they were very proactive in showing us the possibilities of the packaging. It turned out there was a Bong solution for virtually our entire range."

HAVE THE SOLUTIONS WORKED FOR YOU?
"Absolutely! The good-looking gift bags from Bong make our staff even more proud of our clothes and jewellery and make our customers happy," says Fredrik.

ABOUT FLASH

- Flash is aimed at women of all ages
- The first store opened in Lund in 1968
- Flash has 61 stores in Sweden and 4 in Finland

Greater prosperity in Eastern Europe is increasing demand for gift packages and bags.

Trends

Smart shopping and sustainability

Greater prosperity in the east, new ways to shop and growing environmental awareness are trends in Bong's favour. Modern technology is giving consumers the opportunity to shop from any platform, anytime, anywhere. Shopping has become a lifestyle and Bong provides sustainable solutions in real life for bricks-and-mortar retailers and on-line-shoppers alike.

SMART SHOPPING WITH NEW TOOLS

Shopping has become a lifestyle for many. Modern companies are offering ever smarter and more sophisticated ways to shop. We look for and buy goods and services on the net. Online shopping is fast and convenient and it is easy to compare prices and quality. And there are more channels all the time – from personal computers to mobile phones to the I-pod and now the I-pad.

According to eBay, the world's biggest online marketplace, 30 million people downloaded the eBay app to their mobile phones in 2010. And purchases via mobile phone rose by 166 percent during the year.

eBay says the most common items bought were:

1. Clothing, footwear and accessories
2. Mobile phones & handheld computers
3. Collectibles
4. Jewellery and watches
5. Toys and hobby merchandise

THE GROWING O2O TRADE

Many people predicted the death of the store when e-business broke through on a broad front – but the truth seems to be just the opposite. The growing O2O trade – Online to Offline – is yet another sign of how the virtual world is stimulating the real life world. Visitors to dedicated sites, such as market leader GroupOn in the United States, get suggestions and deals offered by stores, restaurants and other outlets in their immediate neighbourhoods. The advantages to the consumer are low search costs and discounted prices, while sellers reap higher revenues.

BONG HAS THE SOLUTIONS

Every purchase is a business opportunity for Bong, whether made online or in a store. If the purchase is made in a store, the customer takes her purchase home in a package or bag supplied by Bong. For purchases made online, Bong supplies smart packaging that communicates the sender's brand, protects the merchandise and is suitable for shipping. If customers do not want to pay online, their bills come in an envelope from Bong. Bong has solutions for every phase, for e-business or bricks-and-mortar retail and for every seller, from private persons to major international fashion chains.

ENVIRONMENTAL AWARENESS

Environmental awareness among consumers is a fast-growing trend. Packaging and envelopes not only have to be durable, good-looking and smart, they also have to be made of recyclable, eco-friendly materials and designed to facilitate smart logistics solutions. Bong is constantly further developing its solutions to create more sustainable products and services.

Growing **e-business** needs packaging from Bong

First he and his team built the ProPac business in Germany. Now Michael Grünert is leading Bong's new e-business venture in Central Europe.

Michael Grünert
Sales and Marketing Manager
e-business, Germany

WHY A SPECIAL E-BUSINESS VENTURE?

"e-business has evolved into a very promising market for Bong. We are benefiting from an ideal combination of growing demand for packaging in the market and Bong's product range, production capacity and growth strategy.

"Our bubble bags, padded bags and Tyvek® have opened the doors to the market. To progress beyond that point, we have to focus on individual solutions for our customers. That is why we have chosen to allocate special resources to this segment."

WHO ARE YOUR PREFERRED CUSTOMERS?

"Our customers come from a wide, open and growing field. We are just as happy to help start-up e-stores as the major corporations.

"There are also interesting prospects in distribution management, companies that pack and distribute merchandise for many web shops and shipping companies," Michael relates.

HOW DOES BONG INTEND TO SUCCEED?

"We have already succeeded at the first step – getting noticed and gaining acceptance for our ProPac range. That is proven by our many significant customers. At present, there is no one who specialises in e-business packaging. We intend to take that position! We are going to do it by offering our customers unique solutions that combine innovative packaging with the latest in logistics. And since we are found all over Europe, we can serve our customers anywhere. Our growth initiative is a perfect fit with the expansion we are seeing in the e-business sector. We see nothing but opportunities!"

WHAT MARKET TRENDS DO YOU SEE?

"Online shopping via mobile phone is taking off in a big way. Famous players like Amazon, eBay and the German Otto Group are offering their customers access to web shops via smartphone apps.

"Another trend is that web shops are offering gift wrapping services to their customers. So, buyers can get the merchandise they buy wrapped and sent to someone else as a gift. Amazon is just one of the companies offering this service. Since we make and sell gift solutions, we see this as yet another growth area for us.

"Last but not least, the market is demanding lighter weight packaging to reduce the environmental impact of transport," comments Michael.

"The option to get your present gift-wrapped makes online shopping even more convenient."

Management

Leadership Team

ANDERS DAVIDSSON

Year of birth: 1970.

President and Chief Executive Officer.

Employed since 2002.

Education: MSc Business and Economics.

Previous positions: Vice President Sales and Marketing, Bong Ljungdahl 2002–2003. Management Consultant and Project Manager, McKinsey & Company 1998–2002.

Holding in Bong (privately and through companies): 182,600 shares.

ULF ZENK

Year of birth: 1963.

Chief Financial Officer

Employed since 2004.

Education: MSc Business and Economics.

Previous positions: CFO, MalacoLeaf Scandinavia 2000-2004. Group Controller, Coca-Cola Nordic Beverages 1997–2000.

Holding in Bong (privately and through companies): 51,000 shares.

MORGAN BOSSON

Year of birth: 1958.

Business Manager Nordic & Eastern Europe, Managing Director ProPac International AB.

Employed since 2005.

Education: MSc Business and Economics.

Previous positions: Managing Director, Icopal 2002-2004. Sales and Marketing Director, Saint Gobain Isover 1997–2002.

Holding in Bong (privately and through companies): 168,000 shares.

ELMAR SCHÄTZLEIN

Year of birth: 1962.

Business Manager Central Europe.

Employed since 2004.

Education: MSc Engineering.

Previous positions: Schneidersöhne Munich/Italy 1995–2003.

Holding in Bong (privately and through companies): 116,100 shares.

MARK COOPER

Year of birth: 1964.

Business Manager United Kingdom.

Employed since 2007.

Education: MSc Business and Economics.

Previous positions: Vice President Avery Dennison, Europe 1990–2006.

Holding in Bong (privately and through companies): 100,000 shares.

PASCAL GRAVOUILLE

Year of birth: 1962.

Business Manager France and Spain.

Employed since 2007.

Education: MSc Chemical Engineering.

Previous positions: Business Manager Europe, Cerro Corporation.

Holding in Bong (privately): 4,700 shares.

Other Key Executives

CHENETTE MORTENSEN

Year of birth: 1970.

Group Marketing and Communication Manager.

Employed since 1990.

SIMON BENNETT

Year of birth: 1965.

Sales and Marketing Director, pan-European Distributors.

Employed since 2007.

SYLVIE DESHAYES

Year of birth: 1960.

Business Development Manager.

Employed since 1998.

PETER ANDERSSON

Year of birth: 1964.

Director, Purchasing and Logistics.

Employed since 200.

Board of Directors











MIKAEL EKDAHL

Year of birth: 1951.

Director since 2001 and chairman of the board since 2003.

LL.B and MSc Business and Economics, Lund University.

Other directorships/positions: Attorney and partner in the law firm of Mannheimer Swartling Advokatbyrå. Chairman, Marco AB, Absolent AB and EM Holding AB; vice chairman, Melker Schörling AB; director, AarhusKarlshamn AB and Konstruktions-Bakelit AB.

Holding in Bong (private and via closely related parties): 40,000 shares.

ANDERS DAVIDSSON

Year of birth: 1970.

Director since 2004.

MSc Business and Economics.

Other directorships/positions: President and CEO, Bong AB; director, AarhusKarlshamn AB.

Holding in Bong: 182,600 shares.

ULRIKA ERIKSSON

Year of birth: 1969.

Director since 2008.

MSc Business and Economics.

Other directorships/positions: Vice president, Apoteket Konsument; director, ProPac International AB.

Holding in Bong (privately and through companies): 20,000 shares.

CHRISTIAN W. JANSSON

Year of birth: 1949.

Director since 2007.

MSc Business and Economics.

Other directorships/positions: President and CEO, KappAhl AB; chairman, Apoteket AB; director, Confederation of Swedish Enterprise, Svensk Handel AB, Kontanten AB, Fata Morgana AB and Vivoline Medical AB.

Holding in Bong (privately and through companies): 745,246 shares.

ALF TÖNNESSON

Year of birth: 1940.

Director since 1989.

Engineering and economics education.

Other directorships/positions: Chairman, International Masters Publishers AB (IMP AB), Aktiebolaget Cydonia, NE Nationalencyklopedin AB, Stabenfeldt AB, Fyrklövern AB and Postpac AB; director, Fleur de Santé AB, Purity Vodka AB and Bra Böcker AB.

Holding in Bong (through Aktiebolaget Cydonia): 3,825,339 shares.

STÉPHANE HAMELIN

Year of birth: 1961.

Elected by the extraordinary general meeting, 22 October 2010, effective 12 November 2010.

Other directorships/positions: Chairman, Hamelin, since 1989.

Holding in Bong (privately and through companies): 4,352,769 shares.

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ERIC JOAN

Year of birth: 1964.

Elected by the extraordinary general meeting, 22 October 2010, effective 12 November 2010.

Educated at Ecole Polytechnique Universitaire de Lille and Harvard Business School.

Other directorships/positions: President and CEO, Hamelin.

Holding in Bong (privately and through companies): None.

PETER HARRYSSON

Year of birth: 1958.

Director since 1997 (employee representative).

Other directorships/positions: Repairman, Bong Sverige AB.

Holding in Bong (privately and through companies): None.

CHRISTER MUTH

Year of birth: 1954:

Director since February 2009 (employee representative).

Other directorships/positions: Inside sales and customer service, Bong Sverige AB.

Holding in Bong (privately and through companies): None.

Alternate directors

PEDER ROSQVIST

Year of birth 1965.

Alternate since 2008.

Representative of PTK (Swedish Council for Negotiation and Cooperation).

Holding in Bong: None.

MATS PERSSON

Year of birth 1963.

Alternate since 2001.

Representative of GS Local (Swedish Union of Forestry, Wood and Graphical Workers)

Holding in Bong: None.

Eco-friendly letters and packaging

The majority of Bong envelopes and packaging are made of renewable materials like fine paper. The merger with Hamelin has provided substantial opportunity for optimising transport between Group units, leading to lower energy consumption and reduced emissions.

THE ENTIRE LIFECYCLE

Bong actively supports the environment through the entire lifecycle of envelopes and packaging, from conversion of fine paper to recycling. Key environmental issues include the origins of raw forestry products, production of fine paper and conversion to envelopes and packaging, transports to and from Bong's production units and product consumption and recycling.

PULPWOOD FROM CERTIFIED FORESTS

Bong buys fine paper only from reputable manufacturers that use origin-labelled raw materials. The majority of raw materials consist of new fibres harvested from certified forests.

The primary material for paper used to manufacture envelopes is renewable and all paper used meets the standards required by customers and regulatory agencies.

FINE PAPER PRODUCTION

The greatest volume consists of uncoated white fine paper, while the remaining volumes are unbleached, brown kraft paper and recycled paper. Through cooperation with suppliers, the paper is under constant development to ensure that Bong envelopes are always optimally eco-compatible.

ENVELOPE PRODUCTION

Surplus ink and other materials used in the production process are collected and recycled or disposed of by approved means. Tough environmental criteria are also imposed on other components, such as glue, ink and window film. Virtually all factories use water-based inks and solvent-free glue.

Post-production waste paper is sorted by grade and sold for inclusion as recycled paper in various paper products. More than 90 percent of total production waste is currently recycled. The remainder is used for energy recovery or sent to landfill. Waste is removed in compliance with current regulations and no hazardous waste is stored.

SHORTER TRANSPORTS

Bong uses reputable companies to transport materials and finished goods. The merger with Hamelin has improved Bong's opportunities to ship goods to customers from nearby plants, which helps reduce fuel consumption and carbon emissions.

BONG IS WORKING ACTIVELY TOWARDS SUSTAINABILITY BY:

- Improving production methods to minimise the environmental impact of emissions
- Working to eco-label as much of the range as possible
- Influencing suppliers and customers to design their products with priority on the eco-cycle approach and conservation of natural resources
- Raising knowledge and awareness of environmental issues among all employees

PURCHASING POLICY

For both financial and environmental reasons, Bong is working to concentrate purchasing to fewer suppliers across the board, from raw materials and services to transport. Fewer but stronger relationships provide better opportunity to set standards and improve terms. Raw materials account for about two thirds of Bong's total purchasing and about three quarters of that share is paper.

CERTIFICATIONS AND ECOLABELS

Bong is affiliated with Paper by Nature, an organisation that has developed the only pan-European standard for converted paper products. Paper by Nature covers all stages of production and the product lifecycle. It is the first all-inclusive, clear and reliable certification for converted paper products. The label guarantees that the raw materials come from responsibly managed forests and products are manufactured in certified plants.

Bong intends to certify all production plants under the Paper by Nature standard. At the end of 2010 nine plants were certified.

Certain Bong products bear the Nordic Swan and FSC (Forest Stewardship Council) labels.

ENVIRONMENTAL MANAGEMENT SYSTEM

The environmental policy is translated to systematic, practical action through Bong's environmental management system, ISO 14 001. In addition to setting standards for our own operations, the environmental management system provides Bong with an avenue to constructively influence suppliers, carriage firms and other partners to work with environmental issues in their businesses.

PAPER BY NATURE

Certifierad ISO 14001

MILJÖMÄRKT 314 003

FSC The mark of responsible forestry SCS-COC-001923 © 1996 Forest Stewardship Council A.C.

PEFC

Employees

Motivated, skilled and healthy employees are a crucial competitive factor in Bong's markets. Bong endeavours to create a sustainable work environment that attracts, motivates and develops the workforce.

EMPLOYEE POLICY

- Bong is committed to good relationships with employees of the Group based on mutual respect
- Bong does not permit any form of forced labour or child labour. The minimum hiring age is the age at completion of compulsory education
- Bong offers equal opportunity to everyone, regardless of race, colour, gender, nationality, religion, ethnicity, or other distinguishing characteristics
- All employees must be provided a safe and healthy work environment
- The employees of every company in the Group have the right to form or join a trade union in accordance with local laws or principles.

THE EMPLOYEE POLICY IN PRACTICE

Bong is a modern company where decision paths are short and informal. The information policy is based on transparency and participation. Managers keep employees informed of local and company-wide developments. Everyone is encouraged to participate actively in discussions about improvements to the work environment that result in fewer work-related injuries, higher productivity and better quality.

Bong also strives to reward extraordinary effort. There are bonus programmes throughout the Group related to things like unit performance, production volume, the number of complaints, and on-time delivery. In some cases, these bonuses may be paid monthly.

INTEGRATION OFF TO A FLYING START

The people of Bong and Hamelin hold the keys to a successful merger. Recognising this, Bong started immediately in the autumn by inviting some 110 managers in the new organisation to a joint kick-off, where they discussed objectives and strategies, common values and a great deal else. The intention was for the participants to subsequently gather their employees to spread the information and new core values throughout the company.

The chief executives of both companies jointly visited units within the Group. The aim was to meet employees and give them a personal introduction to the new company. Along the way, important points of view were picked up for the future – from a truly European organisation.

" Bong's employees are decisive for customer relationships.

Bong and the Portuguese Postal Service are looking out for the **environment**

Nothing was left to chance when CTT, the Portuguese Postal Service, decided to replace its bubble bags with Bong's padded bags. Paper, glue, shipping crates... everything was examined from the environmental perspective. The reason for the switch was that CTT wanted a more eco-friendly package and a supply partner that could live up to its strict environmental standards.

IMPACT RESISTANT AND ECO-FRIENDLY BAGS

Recycled newspaper is used to pad the bags, which are made of unbleached kraft paper, inside and out. They can also be opened and sealed quickly with the self-adhesive flaps.

The CTT range consists of six products of bespoke design in three different formats with pre-printed postage for domestic and foreign delivery.

FOR ANYTHING THAT HAS TO BE MAILED

The bags can be used to mail anything – from the simplest object to the most robust, and for personal or commercial use. Mail-order and e-business companies are major users.

PROMISING MARKET

Bong has also been supplying padded bags to Sweden Post for many years. A number of EU institutions in Brussels have also purchased bags from Bong, overprinted with their own designs.

The market is clearly expanding for Bong's padded bags, a strategic product group that has long been established in Sweden and the UK. Bong now sees significant potential in the new French market. Both the growing e-business sector and rising environmental standards are generating strong demand for padded bags.

The share

Bong issued shares in connection with the acquisition of Hamelin. On 31 December 2010 the number of shares in Bong AB was 17,480,995. After full conversion the number of shares will be 18,727,855.

SHARE PERFORMANCE AND SALES

The Bong share jumped 48.6 per cent in 2010. That year the OMX Stockholm PI (an index for all listed shares on the Stockholm Stock Exchange) rose 23.1 per cent. The OMX Stockholm Small Cap PI, an index that measures price performance of companies whose size is comparable with Bong, climbed 22.1 per cent.

In 2010 shares sold corresponded with 11 per cent of the average value of outstanding share capital during the year.

SHAREHOLDERS

The number of shareholders as at 31 January 2010 was 1,328. Hamelin is Bong's largest shareholder with 24.9 per cent of the votes and capital. Melker Schörling and Alf Tönnesson are the second largest shareholders, each holding 21.9 percent of the votes and capital.

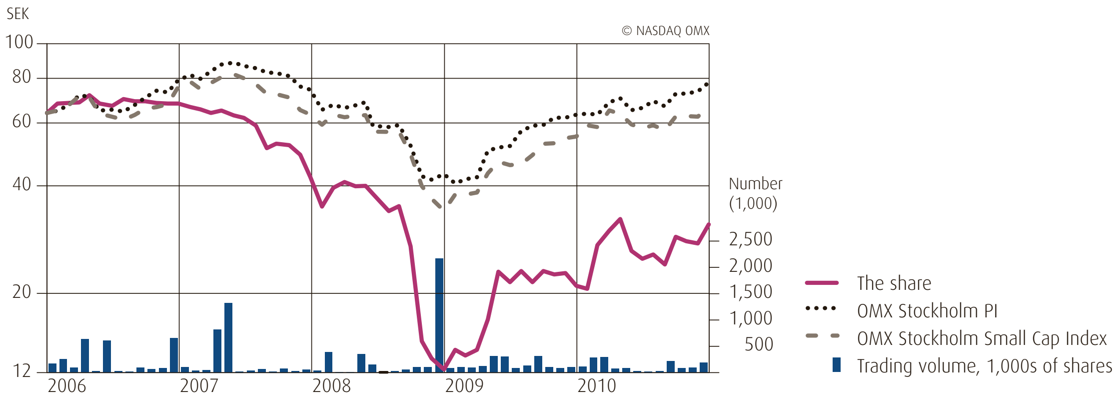
WARRANTS

In accordance with the decision of the General Meeting of Shareholders in 2005, warrants were sold to staff in the Group Management. The warrants entitle the holders to subscribe for a total of 300,000 new shares, of which 295,000 warrants have been purchased by senior executives. In 2010 102,000 warrants matured, which means that all warrants have now expired.

CONVERTIBLE DEBENTURES

Bong issued convertible debentures with a total nominal value of EUR 4 million to Hamelin as part of the purchase price for Hamelin's envelope division. The convertible debentures can be converted into 1,246,860 new shares in Bong.

BONG SHARE PERFORMANCE 2006–2010



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Five year summary

Key figures	2010	2009	2008	2007	2006
Revenue, SEKm	2,326	1,915	1,937	1,991	1 985
Operating profit/loss, SEKm	–91	65	74	60	40
Profit after tax, SEKm	–97	24	10	16	–1
Cash flow after investing activities, SEKm	–277	169	144	1	–7
Operating margin, %	–3.9	3.4	3.8	3.0	2.0
Profit margin (%)	–5.6	1.4	1.0	0.6	0.1
Capital turnover rate, times	1.2	1.1	1.1	1.1	1.2
Return on equity, %	neg	3.6	1.8	2.8	neg
Return on capital employed, %	neg	5.5	5.6	4.9	3.1
Equity ratio, %	21	36	34	33	31
Net loan debt, SEKm	1,062	589	745	829	807
Net debt/equity ratio, times	2.00	0.98	1.18	1.45	1.50
Net loan debt/EBITDA, times	42.7	3.8	4.4	5.4	5.7
EBITDA/net financial items, times	0.6	4.5	3.1	3.2	3.8
Average number of employees	1,538	1,220	1,270	1,346	1,379

Per share data	2010	2009	2008	2007	2006
Basic number of shares outstanding at end of period	**17,480,995**	**13,128,227**	**13,128,227**	**13,128,227**	**13,017,298**
Diluted number of shares outstanding at end of period	**18,727,855**	**13,230,227**	**13,332,227**	**13,428,227**	**13,651,180**
Average number of shares, basic	**14,216,219**	**13,128,227**	**13,128,227**	**13,079,425**	**13,006,000**
Average number of shares, diluted	**14,528,134**	**13,230,227**	**13,332,227**	**13,379,425**	**13,651,180**
Earnings per share					
Before dilution, SEK	–6.97	1.65	0.80	1.19	–0.04
After dilution, SEK	–6.97	1.63	0.78	1.17	–0.04
Equity per share					
Before dilution, SEK	30.39	45.56	47.91	43.54	41.31
After dilution, SEK	28.37	45.77	48.22	43.98	42.30
Other per share data					
Dividend, SEK	1.00	1.00	1.00	1.00	1.00
Quoted market price on the balance sheet date, SEK	32	21	12	42	68
P/E ratio, times	neg	13	15	36	neg
Price/Equity before dilution, %	105	46	25	96	165
Price/Equity after dilution, %	113	46	25	96	160

> A meaningful look from a meaningful person.
> Bong makes it easy.

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